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Interim Report

An Assessment of Development Assistance Strategies

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## FOREWORD

This is an interim report of an assessment of foreign development assistance strategies. The study was initiated in late June, 1977 at the request of the Secretary of State. The study will be expanded and reviewed for possible publication by the Brookings Institution later this year.

Based on conversation with officials in the Executive Branch and the Congress and on its own judgments of importance and feasibility, the Brookings study group decided to focus its inquiry on a few key questions:

- What are the central development problems facing the poor countries, and what bearing do they have on our interests?
- What lessons from more than two and a half decades of experience should be incorporated into any future development assistance strategy?
- What should be the purposes and content of any future U.S. development assistance strategy? What are the implications of this strategy for the size and organization of U.S. bilateral and multilateral development assistance?
- How should that assistance relate to the other U.S. economic programs that affect the progress of the poor countries?

It was not possible, in the brief period of time available, to treat certain relevant issues, notably the role of the United Nations in development strategy, in this report. The principal investigator in this study was Lester E. Gordon, Brookings Consultant and Director, Harvard Institute for

International Development. The study group included:

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This interim report has been largely prepared by Lester E. Gordon.

Some of the supporting studies on which this interim report is based are attached as Annexes to this report. William Cline is the primary author of Annex I, Courtney Nelson of Annex II, and Edgar Gordon and Sidney Weintraub of Annex III. Additional studies will be completed later on (1) lessons for future assistance strategies from the past; (2) the program content, policies, organization and style of bilateral assistance; (3) private voluntary organizations; and (4) the multilateral consultative process.

The study group is grateful to a distinguished external advisory committee for imaginative questions and suggestions and for its conscientious attention to the progress of the report. The committee commented in detail on several drafts and met with the staff in Washington on four occasions from mid-July through late September. The members of the committee were:

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Whatever progress has been made in a few month's time would not have been possible without the time, papers, and ideas freely offered to the study group by members of the Congress and their staffs, by officials throughout

the Executive Branch and by various interested individuals in the private sector. We are particularly grateful to the Overseas Development Council for arranging meetings with representatives of such groups and for making available John Sommer, whose extensive research on private voluntary organizations has been the basis for our conclusions on the subject.

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This study was carried out as part of the Brookings Foreign Policy Studies Program, which is directed by Henry Owen.

As with all Brookings studies, the views expressed are the authors' alone, and should not be attributed to the trustees, officers, and other staff members of the Brookings Institution.

B.K. MacLaury  
President

#### NOTE

A summary of the study's main conclusions can be obtained by reading the recommendations under each of the study's main sections, on the pages listed in the table of contents which follows.

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## INTERIM REPORT

### AN ASSESSMENT OF U.S. DEVELOPMENT ASSISTANCE STRATEGIES

#### I. A Strategy and Its Setting

The United States now has more than 25 years of experience with development activities in Asia, Africa and Latin America. From this experience some assurances and cautions emerge and some guideposts can be discerned for shaping a development assistance strategy:

##### 1. Development Assistance Can Work

In terms of overall economic growth, the performance of the less developed countries over the past two and a half decades has no recorded precedent. The same can be said of food production. Health and general living conditions have improved for the average person; this is evident in the rapid drop in mortality rates, the key factor in the rapid population growth of this period. This overall record and the spectacular performances of a number of countries were generally unanticipated, even as recently as the early 1960's.

Several statistical studies covering a large number of countries confirm that there is a positive association between foreign economic assistance and growth rates. The Republic of Korea, Brazil, and Taiwan are examples of countries that received high levels of economic aid in the 1950's and 1960's and then proceeded through their own efforts, abetted by private capital inflows, to extremely high rates of economic growth thereafter.

## 2. Poverty Remains Widespread

Despite substantial economic growth, more than 700 million people still live in absolute poverty, defined as an income per head of \$200 per year or less. This amounts to almost 40 percent of the developing world's total population. Over 40 percent of the labor force in the developing world is unemployed or underemployed. Four hundred and fifty million to one billion people suffer from malnutrition. Infant mortality rates are eight times higher in the 57 lowest income countries than in the United States. More than 750 million adults are illiterate.

Furthermore, the number of poor, underemployed, malnourished, and illiterate people has risen over the years. The extent to which this increase is attributable primarily to the explosive population growth that characterized the period, or to the growth and distribution policies that were followed, can be argued. Some contend that the proportion of poor has fallen, even though the central fact remains that poverty is massive and that there are more people today than before.

Most of the absolute poor reside in the middle income countries, and comprise about half their population. However, more than 150 million remain in the middle income nations and account for almost 20 percent of their total population. The latter countries have generally displayed high rates of economic growth. Their mixed performance in achieving high growth rates amidst continuing abject poverty raises questions about their development process and about the nature and purpose of future U.S. assistance.

### 3. Diversity Has Increased

Behind the averages and the generalizations lies such diversity that it is no longer valid, if it ever was, to talk about developing countries as an entity. Generally, the poorest countries in 1950 grew less rapidly over the next two and a half decades than the richer ones. The gap between the poorest and richest developing countries is now about three times larger than it was in 1950. Approximately 57 countries, with a population of more than 1.4 billion, still had per capita annual incomes of \$520 or less in 1975, the ceiling which the World Bank uses to identify the countries eligible for concessional development assistance.

Many former concessional aid recipients can now meet their needs for external capital from the non-concessional windows of the international financial institutions, from private investment, and from commercial credit. They are typically the countries whose export earnings have grown most rapidly. They have "graduated" from concessional aid. Whether they can continue to grow will depend significantly on their capacity to attract increasing amounts of private capital and to expand exports. The outcome will reflect not only their own policies but also the trade, investment, and commodity policies of the industrialized countries.

Thus, concessional economic aid has been increasingly directed to a limited, if still substantial, clientele. The World Bank group provides highly concessional credits to the poorest countries, then moves to a mix of concessional and non-concessional loans as a country approaches a per capita income ceiling, and terminates concessional aid when that ceiling is reached. The U.S. bilateral program has a similar structure, but a less rigid ceiling.

#### 4. Development Is An Evolutionary and Largely Domestic Process

Development evolves over long periods of time, and it depends on local factors and effort.

Despite the sudden surges and then sustained rapid growth experienced by such nations as South Korea, Brazil, and Singapore, development builds on a base of technology, institutions, skills and policies which takes decades to create. Many of the middle income nations that performed so well during the 1960's entered the previous decade with the basic ingredients for development in place; the poor nations who performed less well did not. They are still constructing a base, and in some cases this will still take many decades. Experience cautions against writing off the prospects of any nation. Some nations whose future seemed hopeless in 1960 are booming today. Any lifeboat strategy would have to be based on a totally unjustified certainty about the course of events as well as an underlying immorality.

Even a decade is thus too short a perspective for an assistance program. Unrealistic perspectives have fueled U.S. hopes in the past. The persistence of the development "problem," despite these hopes, accounts for some of the reaction we have seen against development assistance.

There are limits, moreover, to the impact that foreign assistance can have. In the final analysis, development is an indigenous phenomenon. Aid givers can help to introduce new technologies, develop institutions, train people, and make capital available. But local social and political factors, the culture, and the leadership must be receptive to change. The policies which emerge are the key.

Development assistance can sometimes change these policies. When local governments feel unable to assume the political or economic risks of substantial changes in priorities, external resources may ease the transitional burdens. Withholding assistance until policy changes are made may also be useful. As argued below, bilateral assistance programs are less likely to exercise such leverage effectively than multilateral institutions or groupings.

#### 5. New Knowledge Is Needed Continuously

The development process requires the continuous development of new knowledge. Of all the essential ingredients of development, this element has been least recognized and least supported in developing assistance programs. In the long run, it may well be the most critical.

The United States recognizes the importance for its own economic growth and social progress of substantial expenditures on research and development. About two percent of all research and development expenditures in the non-communist world takes place in the developing nations, where about two-thirds of the people are. Yet it is a commonplace that much of the technology needed for development cannot automatically be transferred from the industrialized to the developing nations.

This is not meant to imply that Western technology is too complex, or that appropriate technology for the developing world is necessarily simple technology. On the contrary, the development of a seed which will have high yields and high nutritional value under local conditions is an extremely complex technological process. We merely suggest that there is a substantial need for technology directed to particular conditions in developing countries.

The development of appropriate technologies is not simply a narrow scientific or engineering process. Whether they are borrowed, adapted, or new, technologies must be usable by people and their institutions. Social as well as technological questions must be answered. Some of these questions can be addressed in the research and development institutions of the industrialized nations. Typically, however, the problems faced by the developing nations are so particular to their own technological and social conditions that they must be addressed at home.

The United States has a unique capacity to help develop such capabilities. Certainly no other nation has such a broad and deep technological base on which to draw. Much of our vast potential, however, remains untapped. The United States has not accorded its mobilization a high priority (though vast sums of money are not required), and effective mechanisms have not been established in government to provide support.

Many problems facing the developing nations also confront the United States; we have a mutual interest in solving them. The National Academy of Sciences has pointed out, for example, that genetic research which would result in the biological fixation of nitrogen would permit crop productivity increases to take place throughout the world beyond the limits now imposed by increasingly expensive artificial fertilizer. Such mutual interests, which are extensive, call for collaboration by the United States not only with the poor countries to whom concessional aid goes, but also with the wealthier developing nations, most of whom are well launched but are still building their institutional capabilities for undertaking research and development.

6. Basic Human Needs Should Receive More Attention

As indicated above, the central problem of development is that the number of poor people is greater than ever, despite good aggregate economic growth. While rapid economic growth is necessary to alleviate poverty, it is not sufficient. The experience of a number of fast growing nations, such as Brazil and Mexico, bears this out.

An early appreciation of this fact led the Congress to legislate "New Directions" in 1973 for this country's development loan and grant programs. The intent of the New Directions was to focus U.S. assistance on the plight of the poor majority. It seeks to use U.S. assistance to enlarge the participation of the poor, and it would concentrate U.S. resources on support of food and agriculture, population, health and education, and human resource development.

Essentially, two approaches can be taken within a framework of rapid growth to alleviate the worst aspects of poverty. The Congress, through the New Directions, has sought to give increased emphasis to both approaches.

The first consists of efforts to broaden productive employment. It generally entails a relatively equitable distribution of land and the construction of irrigation, roads, electrification and other economic infrastructure through labor intensive methods wherever possible. It calls for access by the small farmer or businessman to credit, fertilizer, seeds, tools and other productive inputs; and it requires a pricing system that does not artificially favor capital over labor.

A second approach would alleviate human misery directly through provision of basic services and commodities to the poor. It would have the

government substantially expand potable water systems, health services, food, subsidized shelter, and the like for targeted low income populations.

The desirability of measures to enlarge productive employment opportunities is generally accepted, but the extent to which the direct provision of services should be expanded is a matter of considerable controversy. Critics of a massive expansion argue that it would impair growth by diverting resources from more immediately productive activities and that a large international transfer of funds of unknowable and therefore open-ended size would be required.

We believe that U.S. development assistance should have as a major objective the more rapid satisfaction of basic human needs. Individual well-being is the ultimate objective of all economic activity and our assistance should recognize it as such.

In order to minimize subsequent disappointment and misunderstanding, we believe that in adopting a strategy which gives greater emphasis to basic human needs the United States should recognize and accept the following:

- a. Support of basic human needs should be treated as a shift in emphasis, not a new strategy. Economic growth remains the underlying means by which satisfaction of human needs is made possible.
- b. The current evolution of national and donor programs toward increased emphasis on rural areas, which is where most of the people in poor nations are, is probably the most significant shift that can be made to meet basic human needs. Within rural areas, rising production of basic foods will normally have the

broadest positive effect on incomes, employment, health, nutrition, and other basic human needs.

- c. Greater attention to the needs of its poor is ultimately each nation's own responsibility. In the absence of internal concern and action, foreign assistance will have little effect. The outcome is determined by domestic policies, institutions, and leadership. Only by affecting these domestic policies can foreign assistance be useful over the longer term. A shift in emphasis toward the poor will frequently require internal reforms that many governments will be unwilling or find it difficult to undertake. Whether and how assistance might affect this process of domestic change should be a critical consideration in allocating assistance funds.
- d. By restricting its assistance to projects which affect the poor directly, the United States would risk providing only temporary help to a smaller number of poor people than could otherwise be reached. The poor are a part of an interdependent economy. They depend on markets and roads to sell their products; they depend on research to produce the seeds they can plant; they depend on a pricing system which makes it worthwhile to produce more; and they need the fertilizer factories, electrification systems, and irrigation dams and canals to provide the inputs for crop production. An assistance

program which ignores the indirect requirements of the poor is headed for failure unless these needs are met otherwise. An effective approach to basic human needs calls for flexible aid policies and instruments.

- e. Programs to expand the delivery of services for the direct satisfaction of basic human needs, as opposed to those which do so by raising incomes and increasing employment, use resources that could be employed in more immediately productive uses. This trade-off should not be ignored. The expansion of direct service programs should be no greater than a nation can sustain by its fiscal resources and rising income.
- f. According greater emphasis to the direct satisfaction of basic human needs might well start with revision of existing programs to make them more effective. Expansion of the kinds of education, health, and other social programs now underway in the developing countries is likely to help the poor only marginally. Health programs which emphasize urban, high technology, curative services are unlikely to help the masses of people in rural areas, or even the poor in the cities, whose dominant health problems are largely environmental in origin. Members of the elite will always find their specialty health care. Similarly, expansion of university education, which is typically free in poor countries, deserves de-emphasis in comparison with rural literacy or out-of-school programs. The high-cost, urban centered, high technology programs are what international

assistance has tended to emphasize because that is how Western technology is most easily transferred. The challenge is to develop low cost delivery systems that will meet the needs of substantially more people with any given amount of funds. This will entail continuing research and experimentation along the lines encouraged by the Congress in its New Directions legislation.

7. Nationalism and International Collective Action Shape the Role of Aid

Over the past 25 years nationalism and international collective action, seemingly contradictory tendencies, have both burgeoned within the developing world. Each carries implications for the purpose and style of development assistance.

An underestimation of the force of nationalism in shaping development policy could have serious effects as development becomes the centerpiece of nationalistic politics in an increasing number of nations.

The implications for development assistance are clear. The appropriate atmosphere should be one that is driven neither by the U.S. desire to provide aid, nor by such advocacy for particular policies and programs that the ultimate responsibility for them, which should be the receiving country's, becomes obscured. External pressure for change comes best, if at all, from international institutions and groupings. The United States should make clear its standards and policies and respond promptly and effectively to requests that meet its criteria. Such a posture does not preclude a constructive dialogue or collaborative effort, but it does preserve

both the recipient's and the United States' independence of decision. In clarifying each party's responsibility, it makes clear that the United States is not imposing its values and interests on an unwilling recipient. It also makes clear that the United States will support only those programs which it believes to be productive and equitable.

Collective action began for the developing countries at Bandung, Indonesia in 1955. It has culminated in their demand for a New International Economic Order (NIEO), whose elements will be discussed in international forums for some years to come. The bearing of U.S. development assistance on that discussion is unclear. Some segments of the developing world will be wary of being "bought off." The increase in concessional aid to the poorest countries suggested below might well be regarded by some higher income countries as an attempt to divide a solid front. Even though a significant increase in development assistance is likely to have some positive impact on the total negotiating atmosphere, this effect will probably be marginal and transitory. We conclude that any decisions on development assistance levels should not be based on their imagined impact on N.I.E.O.-related negotiations.

#### 8. Human Rights Policies Should Be Taken Into Account

Relating development assistance programs to the promotion of human rights involves three considerations: definition of human rights, specification of tolerable standards of performance, and identifying the effect of development assistance on performance.. Each involves complex questions to which there are no clear cut answers.

Americans value a wide range of human rights, from forms of expression through property rights to material conditions of life. Some of these rights conflict with others; and other civilizations with different histories attach different weights to particular rights. The termination of development assistance may or may not affect a regime's political repression, but it will almost certainly disrupt the continuity of a program which improves living conditions to the poorest segments of the society.

The issue of providing aid is easily resolved where the violation of political rights is particularly egregious, as in the case of Uganda. A few such aid terminations in the most extreme and obvious circumstances may convey a message beyond the countries directly concerned. But most cases pose more complex questions, because human rights, as we conceive of them, are consistently abridged in many developing nations to some degree. This argues for a case-by-case approach in which the seriousness of violations, the direction of change, and the relative importance of different rights become critical matters for judgment.

#### 9. Alleviating Poverty Is In The U.S. Interest

The widespread poverty that abounds in each of the less developed continents is of major significance to the United States.

The U.S. economy has become intertwined with that of the developing nations, and we can expect it to become increasingly so. We now export more to the developing countries than to either the European Economic Community or Japan. Almost half of direct foreign investment by the United States in 1975 went to the developing nations. The United States is also

dependent on some of these nations for the supply of certain critical raw materials.

U.S. interdependence with developing countries extends beyond such economic connections. Widespread poverty abroad can increasingly affect the quality of life in the United States. Looking to the end of this century, the National Academy of Sciences concludes that "unless the productivity of agriculture is increased in developing countries the United States may face higher costs of food production and higher food prices for consumers." Some diseases which thrive where there is malnutrition and unsafe drinking water know no borders. The spread of poverty increases pressure for illegal migration. The U.S. shares with developing nations a mutual interest in solving the universal human problem of population growth; improvements in income, health, and education tend to be associated with reductions in birth rates. How rapidly these improvements take place will be important in determining whether the world's population levels off at 8 or 11 million souls, or even more.

As this planet shrinks, the U.S. interest in the use of the global commons must grow. The manner in which the ocean's resources and atmosphere are managed will have a profound effect on the quality of Americans' lives. The ability of many developing nations to collaborate in addressing these problems will be affected by the responsiveness of the wealthier nations to their critical internal problems.

#### 10. The Time Has Arrived For A Major Advance Against Poverty

The successes already achieved in development and the lessons which emerge from almost a generation of experience suggest that alleviating

the worst aspects of poverty among the billion or so people who survive under daily degradation is susceptible to effective attack. The skills and resources are at hand; they need to be mobilized in greater quantity and used more effectively.

As indicated earlier, effective domestic policies in the developing countries are the key ingredient. But more outside help is also needed. The contribution of the United States, through bilateral and multilateral programs, can be an important part of this help. Our vast resources make us the only nation capable of playing a leadership role. Whether we assume this role will have much to do with how others act.

There are many reasons for the United States to play its part. Some have been set forth earlier, but as important as any is the fact that the U.S. posture toward the developing world should reflect the moral principles that most Americans honor in their private lives and that we should not be ashamed to honor in our foreign policy. President Carter's evident aim to reclaim a position of respect in the world would be strengthened by much more substantial participation in a worldwide attack on poverty abroad.

Recommendations:

- a. The United States should make clear that it is prepared to join other donor nations in a long-range commitment to help the developing nations achieve a major advance against the worst aspects of poverty by the end of the century. This will entail a substantial expansion of U.S. aid through bilateral and multilateral channels.
- b. The United States should make clear its view that the success of this effort depends on the policies followed by developing countries. Each

country should be urged to prepare programs and adopt policies targeted on a rate of economic growth sufficient to support more rapid satisfaction of the particular human needs which it considers most basic, including increased employment opportunities, more food and better nutrition, a rate of population growth consistent with its growth potential, and improved health and education for its poor.

- c. The United States should make a special effort to mobilize the latent potential in its vast technological base for expanded, long-term programs of technological collaboration with the developing nations both poor and middle income countries. Such programs should serve to enhance capabilities within the developing countries to promote growth, improve the lot of the poor, and solve other problems of mutual interest.
- d. U.S. foreign aid strategy should reflect the fact that its capacity to help is limited by factors within the developing nations themselves. Explicit recognition of this fact should mute excessive expectations and ensure that highest priority in allocating assistance funds goes to nations following sound growth with equity policies.
- e. U.S. aid strategy should take account of how human rights are treated in each country. In doing so, it should consider the full spectrum of rights -- from the right to be free from poverty to the right of political expression -- and weigh the seriousness of any infringements, the direction of change, and the likely effect of development aid, or a denial thereof, on the local situation: Will withholding aid do as much to reduce oppression as granting aid can do to help development?

## II. The Effectiveness of Bilateral Official Development Assistance

Development assistance is only one of the wide range of activities in which the United States engages, either through government or privately, that affect progress of the developing nations: these countries also rely on external resources derived from trade liberalization, commodity stabilization, direct investment policies, borrowing on capital markets, and export or supplier credits. But the poorest nations need to obtain added resources at less than market cost, whether in the form of grants or credit on easy terms. Such concessional aid, formally referred to as Official Development Assistance (ODA) by the Development Assistance Committee of the OECD, is found primarily in three separate U.S. programs. We now turn to some questions relating to the effectiveness of these programs.

### 1. Development Grants and Loans

#### a. Allocation of Concessional Aid

Development grants and loans, administered by AID, amount to \$1.3 billion in FY 1978. Concessional aid is intended for countries which cannot acquire sufficient external resources through conventional market or market-like channels. In practice, this has come to mean the poorest nations. A reasonable definition of such nations is that used by the International Development Association (IDA), i.e., countries are those with annual per capita incomes of \$520 or less in 1975 dollars. Under such a definition, about 57 countries with a total population of about 1.4 billion are eligible. This policy not only rations scarce appropriate funds to those most in need; it also

reinforces the idea that concessional aid should help nations develop to the point where they no longer need it.

In many recently "graduated" middle income nations, of which Latin America has the preponderant share, large numbers of extremely poor people remain. It is sometimes proposed that modest amounts of concessional aid targeted on poor populations go to these middle income nations. Such an exception would undermine the basic rationale for concessional aid and it would not be likely to provide much lasting improvement for the poor it was intended to help. Typically, along the spectrum from low income to high income development countries, the middle income countries have the most unequal income distribution. The reasons for this are deeply rooted in their societies. It is not likely that modest funding for small projects will alter the political, social, and economic structure, institutions, and policies on which any durable shift in income distribution depends.

Often, as we have indicated above, the reduction of poverty will depend more on the development of new knowledge, skills, and institutions than on additional capital resources. By responding to requests for technological collaboration along these lines, the United States can make an effective contribution to the alleviation of poverty in middle income, as well as poor, countries.

Recommendations:

- 1) U.S. bilateral development assistance programs should be directed to the low-income countries.

- 2) As recipients approach the IDA cut-off point, concessional aid should simultaneously decline and the emphasis should shift from grants to credits, first on soft terms and eventually on hard terms.
- 3) Technological collaboration with middle and high income countries should be encouraged and assisted by the United States on a shared funding basis, as appropriate.

b. Implementation of "New Directions"

Development grants and loans have been the focus of the Congress' "New Directions." Implementation has been hampered by a failure to agree with the Executive Branch and between the Executive and Congress on what the specific content of the "New Directions" should be. One consequence has been a tendency to limit New Directions assistance to small and sometimes unrelated projects that appear to help the poor directly. These projects, whose size clusters in about the \$2 - \$3 million range, compare to an average project size of about \$30 million for the World Bank. The practice of "retailing", rather than "wholesaling", projects is highly inefficient in the use of manpower. More importantly, serious questions can be raised about a philosophy which asserts that building a farm-to-market road is undesirable because it benefits the poor only indirectly, whereas providing seed directly to a small farmer is desirable for the opposite reason. As argued above, more rapid growth and greater equity depend more on a country's capacity to develop appropriate policies and programs than it does on the specific projects to

which outside aid is directed. Assistance is more effective primarily to the extent that it reinforces local policies and programs that have wide coverage and impact.

AID has sought to promote development over the years in a difficult and discouraging environment. The effectiveness of its dedicated staff has been limited by conditions largely beyond its control. The surprising thing is not that AID's efficiency is uneven, but that it manages to disburse the amount of aid it does under these conditions. Prime among these is the premium that AID is compelled to place upon paper work. Some of this paper work is required by existing legislation and Congressional desires for detail; some of it is self-inflicted, partly to avoid internal, Congressional, or other criticism of individual projects. AID now generates an enormous number of documents annually to justify new projects, both internally and in justifications for the Congress. From the time a field mission proposes a project until the time that it gets under way, a minimum of from two and one-half to three years elapses. This timing may be reduced by the Administrator's recent wise and welcome elimination of one of the three project justification phases.

Under pressure from Congressional committees, AID not only concentrates on the development of small projects and justifies each one to the Congress in its annual presentation, but has agreed not to undertake any project to which a committee objects and to make no major modifications in approved projects without committee approval. This agreement, which is now informal, may soon be reflected in legislation. The implications of this procedure become clear if one considers that 100 - 150

new projects are developed each year and perhaps 400 projects or more are active at any one time and are thus subject to frequent revision as local circumstances change. Under these circumstances, even necessary and important changes are likely to be avoided.

The legislation and legislative history under which AID functions is the accretion of 16 years of ad hoc mandates, injunctions, and restrictions. It is so complex and extensive that little effort is needed by outside or inside critics of any given project to find a legal basis for blocking it. The legislation's length is 100 pages, compared to the one page Order in Council under which the Canadian International Development Agency administers a program of about \$1 billion. The legislation contains more than 100 requirements that must be considered in evaluating each project, and the record must reflect the consideration given to each item.

Thus, the practice of concentrating on small projects, subjecting each one to Congressional approval, requiring that modifications also be approved by Congressional committees, and testing each project according to a massive, sometimes inconsistent, and unweighted array of legislative criteria combine to help explain why AID has a reputation for inefficiency, rigidity, and slowness.

It has been suggested that provision of "New Directions" assistance on a project basis will require a substantial increase in the size of field missions. In earlier years large field missions played an important role in shaping the domestic economic policies of receiving countries. Many of these countries needed and welcomed

this advice; the United States, as the main aid giver, was a natural source of counsel. Now most developing countries have either acquired considerable competence in managing their own affairs or resist external advice, as we have argued above. If these countries need technical counsel, they would rather hire it, or seek it from an international organization.

In present circumstances a non-interventionist style of assistance makes sense -- one that would let eligible countries know what aid is offered, according to what criteria, and under what conditions, but which would not press programs or projects that are not initiated by the host country. This procedure would encourage countries to improve their own planning procedures -- using their own talents for this purpose or, where these are deficient, turning to private external sources, international financial institutions, or qualified consultants hired with U.S. assistance funds.

Some nations will need more help in developing programs and projects than others. Suggesting that such help is required and assisting such nations to obtain it, and even financing the help with U.S. funds, is not interventionist. It is important, however, that outside help be chosen by and work for the recipient government. In this way, the responsibilities of the U.S. and the host governments remain clear and distinct.

The size of official field missions will have an important effect on style. Larger missions tend to be interventionist.

Small official missions necessitate greater resort to the host country's own resources and to Washington-based staff, other executive departments, and private contractors for detailed project and program planning and evaluation.

Recommendations:

- 1) The assistance from the aid agency should be directed to not only projects that will have a direct impact on the poor but also projects or programs that will fit into a sectoral or regional framework that will promote growth with equity, e.g. agricultural research and extension, primary irrigation canals, small industry, rural electrification roads, other rural infrastructure. The relevant committees of the Congress should be asked to support such flexibility and to resist counterpressures, which tend to hobble the programs.
- 2) There should be a change in project development and approval procedures to increase staff productivity -- by packaging small projects into larger programs, relying more heavily on field mission and contractor judgments, and focussing aid justifications to the Congress more heavily on the way assistance is intended to support the recipients' larger programs or sector activities.
- 3) The present legislation should be revised to make it more consistent internally, clarify obscurities, and eliminate requirements that inhibit action but have long since lost any valid basis for retention.
- 4) Whenever possible, the U.S. should seek local intermediaries (e.g., development banks), or package programs of sectoral support so that

the U.S. aid role will be that of a wholesaler rather than a retailer -- particularly where a large number of small projects are involved.

- 5) Large U.S. field missions should be avoided. If the level of AID personnel in Washington is excessive (we are not competent to judge), the situation should not be corrected by shifting large numbers of people to the field.
- 6) The United States should define the criteria which will govern its aid. It should be prepared, as requested, to help countries secure advice and technical assistance in developing projects and programs that meet these criteria. The responsibility of the host country for devising and carrying out these programs should not be diluted by U.S. intervention.

c. Organization

U.S. bilateral aid is flawed, beyond the internal difficulties noted earlier, in several respects:

AID lacks the number of technically qualified personnel required to carry out the New Directions. The reasons are numerous, ranging from the decline in younger, more recently trained professionals over the years through reductions in force and a virtual halt in hiring, to the downgrading in past years in the priority given to specific technical capabilities and the unattractiveness of the agency to some highly trained people as a place to do challenging development work.

There is a tension in American aid agencies which goes back many years between officials who emphasize effective implementation

and those who are concerned about the adequacy of our knowledge regarding implementation. The former resist the diversion of resources to uses whose rapid contribution to development is either uncertain or unlikely. The latter stress that development is a complex, long-term process requiring the continuous development of new knowledge. Both orientations are needed, but the strong traditional operational orientation of AID, reflecting partly a caution born of concern for Congressional reactions, has discouraged risk-taking and hence of research and development, whose results are necessarily uncertain.

A consequence is that insufficient U.S. resources are now devoted to research and development on problems of concern and importance to developing countries. The findings of the National Academy of Sciences on the potential contribution of research to the solution of the world food problem have already been noted. U.S. domestic agencies qualified to undertake or support research relevant to developing countries naturally give first priority to their domestic tasks. The private U.S. research community has not been attracted to, or supported in, research relevant to developing countries in anything like the degree that would exploit its full potential.

What is lacking are sufficient American institutional bases, in and out of government, to help develop research and development institutions in the developing nations and to carry out relevant research and training activity here. The potential is present but,

in the absence of some indication of continuing support, it is not likely to be realized. AID has taken some initiatives in this direction, with mixed results. Section 211(d) of the Foreign Assistance Act was employed briefly to support the establishment of new institutional bases but was subsequently abandoned. Title XII of the Act was enacted two years ago to engage the land grant colleges more actively in agricultural research, extension, and training. Although some progress has been made, the internal tensions described above remain and will continue to plague implementation of this initiative.

AID's closeness to the Department of State, as well as its exposure to Congressional criticism, may create some pressure to bias operations in favor of short-term political, as opposed to long-term developmental, goals -- even though the political benefits sought through development aid have often proved transitory. Coordination of the agency's development assistance with foreign policy in a broad sense is important, but its long-term effectiveness is apt to be degraded when it over-reacts to current political urgencies. Where conflicts between immediate political and longer-term developmental goals are compromised at low levels, the weight attached to short-term factors is apt to be greater than when they are resolved at those higher levels, where trade-offs between the nation's major foreign policy goals can be appraised in a more long-range context. These considerations probably help to explain why some major donors have aid agencies that are separate from their foreign offices. Greater distance between the State Department and the

aid agency might also enhance the moral posture of the United States by emphasizing the U.S. interest in long-term growth and equity.

These problems, as well as the internal operational problems described above, would be alleviated by basic organizational changes.

#### Recommendations

- 1) New legislation should be sought authorizing the establishment of:
  - a Development Cooperation Agency, which would be AID's successor; and
  - an International Development Foundation, which would be concerned with research, development, and training.
- 2) The mission of the Development Cooperation Agency (DCA) would be to continue AID's support of delivery systems and other operational programs, including technical assistance, in the development nations in accordance with the New Directions <sup>1/</sup>. Its concern, like that of AID, would be with the conversion of existing knowledge into programs in the developing nations that promote growth and equity directly. The agency's name would stress the extent of the break with past operational procedure and the U.S. commitment to a long-term attack on poverty abroad. New legislation establishing this agency would create an opportunity to eliminate unnecessarily restrictive provisions in the law. The DCA would receive foreign policy guidance from the Secretary of State, but it would be an independent agency reporting to the President.

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<sup>1/</sup> The kind of operational programs supported by the DCA would include, for example, services to farmers and small businesses, e.g., credit and agricultural extension; economic infrastructure, e.g., roads, irrigation, and electrification; the delivery of social services, e.g., health, nutrition, education, housing and family planning; development institutions such as cooperatives and development banks; and food for development projects and programs (see later discussion of P.L.480). DCA's financing would cover technical assistance, commodities, participant training, and construction, as appropriate. Wherever warranted, the DCA would package such projects and other resources to support promising sectoral programs and policies.

The founding of this new agency could be the occasion for needed personnel improvements that would attract highly qualified people, with technical competence and field experience. Consideration should be given to placing all personnel, except for topmost management, on a basis that requires periodic service in the field. The DCA should institute a systematic program for the continuing recruitment and career development of technically qualified younger people. The DCA would have small country field missions staffed by a few professionals qualified to appraise and discuss constructively with local governments larger matters of policy and program and how U.S. support might be of help. For specialized help, field missions would turn to a high mobile technical staff based in Washington or in regional field offices, or to other government agencies and private institutions or consultants.

As is the case with AID, projects would be carried out under contract with other Executive Departments, universities, and private contractors.

The DCA would maintain close liaison with the proposed new International Development Foundation in the field and in Washington. It would turn to the IDF for help in defining difficult new problems; it would seek its help in identifying technically qualified institutions and individuals to use in specific situations; it would turn to IDF for help in training its own staff; and it would advise IDF on the development problems to which the Foundation should direct its attention. The Administrator of the DCA should serve as chairman of the Board of Directors of the IDF, in order to ensure an effective cooperation between the two agencies.

3. The mission of the International Development Foundation (IDF) would be to expand knowledge of the development process by strengthening research, development, and on occasion training capabilities in the

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developing nations and in the United States.

This new institution would be an autonomous, permanent agency-- somewhat comparable to the National Science Foundation, for example, preferably operating with funds authorized on a multi-year basis. Its Director would be subject to the general guidance of a board, consisting of public and private members representative of U.S. professional communities, in and out of government, and would be chaired by the Administrator of the DCA. The staff would be small, consisting of highly qualified professionals from a range of technical fields. Regional offices, each staffed with a few technical generalists, would be located abroad.

The Foundation would perform the following specific functions:

- It would serve as a central source of knowledge concerning research needs and priorities on selected development problems. Its small staff would keep current with advancing knowledge frontiers, and it would periodically organize and support major reviews, such as the recent World Food and Nutrition Study of the National Academy of Sciences, in selected problem areas.

- It would strengthen the contribution of U.S. universities and private research and training facilities to the solution of key problems by building up their capacity and supporting research.

- It would help to guide and support government research facilities working on development problems by organizing the exchange of information, providing supplemental funding, and advising on the use of P.L. 480 local currencies available

for research in the developing nations.

- It would help to build capacity in the developing countries for research, training, and experimentation through support of training in the United States for the staffs of local institutions, research projects, regional research conferences and workshops, links between U.S. and indigenous institutions, and local institutional and in-service training programs.

- The IDF would help to improve access to U.S. training and research facilities by the developing countries -- by appraising existing program, supporting new approaches, helping DCA to place and monitor students, and supporting the training of personnel in private and public agencies destined for foreign assignments.

- The new Foundation would support U.S. participation in international programs intended to develop new knowledge about development problems.

## 2. Private and Voluntary Organizations (PVO's)

The IDF would also help public and private foundations and private and voluntary organizations (PVO's) to become more effective.

PVO's are more significant sources of assistance for the Third World than is generally realized. Providing in some recent years almost \$1 billion, much of it for purposes generally understood as developmental, their financial outlays have in these years been roughly the same as those of the present Development Loan and Grant program. Even this figure understates the total amount involved, since it does not reflect the value of services

provided by volunteers without compensation. The value of the private and voluntary agencies has also been seen in their flexibility, people-to-people approach, and ability to innovate. Over the years these agencies have pioneered new approaches in schools, hospitals, and anti-poverty activities.

These agencies' long-term financial viability is uncertain. The U.S. public contributes to them sporadically, primarily in response to relief-oriented and emergency appeals. The agencies that are developmental in their orientation tend to lack broad-based appeal and look mainly to the U.S. Government for support. In addition to about \$200 million in P.L. 480, Title II surplus foods which they receive annually, AID provides about \$60 million for general support of various kinds and approximately \$80 million in contracts for overseas projects. The U.S. contribution is often provided under criteria so loose as not to distinguish between effective and ineffective PVO's. In accepting such monies these agencies sometimes appear to compromise their independence as voluntary organizations, since valuable AID support has been accompanied by political constraints on operating within certain countries and on conducting projects which appear to be politically sensitive.

Notwithstanding these difficulties, the potential for more effective collaboration with the U.S. Government is considerable, if some of the political and administrative burdens on the PVO's could be reduced. This might be easier to accomplish if responsibility for support of PVO's were transferred to a new public foundation, as described above. This transfer would be consistent with the IDF's

mission -- to mobilize talent in the private, as well as public, sector for technological collaboration of various kinds with developing countries.

Recommendations:

- a. U.S. financial support for Private Voluntary Organizations should be increased in cases where their activity would contribute significantly to development -- this to be assessed under more rigorous criteria than at present.
- b. Present procedures for supporting PVO operations should be streamlined, so as to reduce the political and administrative burden on PVO's.
- c. Responsibility for U.S. support of PVO's should be transferred to the new International Development Foundation discussed earlier in this report.

### 3. Public Law 480 Surplus Foods

Surplus foods are resources. As such, they can be used to support development in several specific ways:

1. They can meet shortfalls in food availabilities occasioned by periodic crop failures.
2. They can help to meet and thereby make possible an expansion in the effective demand for food until the enlarged demand can be met from higher domestic production.
3. They can be used to pay people employed in the construction of such productive facilities as rural roads, irrigation, or reforestation.
4. They can be used to increase the physical ability of low income people to work productively.

The P. L. 480 program was originally conceived for none of these purposes; it was intended to dispose of farm surpluses. The legislation now prescribes the development of new markets as an objective, together with development, disaster relief, and other humanitarian purposes. Priorities shift from time to time, depending on the size of U.S. harvests and the state of world markets.

The potential contribution of surplus foods to development has rarely been realized, not only because priority is typically given to other purposes, but also because subsidized food imports tend under some conditions to depress agricultural prices in the receiving country, thereby deterring the local expansion of food production. Certainly large food imports can have such an effect. If the surplus food program were to have development as an overriding objective, however, means could be devised to neutralize its disincentive effects in particular countries.

One way of doing this would be to use this resource, which has broader uses in most economies than any commodity other than cash, to increase the effective demand for food. This could be done, for example, by channeling food at low prices to low income groups through "fair price" shops or other means. If new, effective demand could be brought into play to absorb imported food, price depressive effects would be negligible and normal incentives would operate on the farmer.

Another way of achieving the same purpose would be to channel proceeds from the sale of food to underemployed, low income workers hired to construct productive facilities. An advantage of this approach is that food imports would help to finance investments that could produce more food locally.

A third method is to use food imports as additional resources sufficient to offset the inflationary impact of a fiscal and monetary expansion of the economy as a whole. Since not all of this expansion in spending capacity could be devoted to food purchases, carefully worked out measures would have to be devised to minimize its inflationary effects.

In these and other ways, carefully worked out policies and programs in the recipient countries could minimize depressive price effects of increased surplus food sales and still result in new productive capacity.

The U.S. Government is not now organized to bring about these changes. Department of Agriculture representatives overseas are, properly and understandably, more concerned with export market development than with local agricultural development. Present legislation and organization arrangements accord to AID's field missions neither a mandate nor an incentive to work out such programs with local governments. The irony is that, if this were done, a substantively greater quantity of surplus food could probably be made available than under present arrangements.

When the U.S. Government recently announced that 30-35 million tons of food grains would be placed in reserve during the coming year, it disclosed that a substantial amount would be set aside as a potential U.S. contribution to any agreed international system of national grain reserves, and that 6 million tons would be set aside for emergency humanitarian uses in the developing nations.

In the event of production shortfalls several percentage points below a trend line, the United States could offer to selected poor nations a multi-year guarantee, under carefully worked out conditions, to make up the deficiency. By reducing uncertainty of supply, stability of prices and continuity in development activity could be maintained.

Recommendations:

a. Higher priority should be given to development objectives in programming P.L. 480 sales; and programs and policies should be developed to ensure that the effect of these sales is to increase, rather than reduce, food output and the effective demand for food in receiving nations.

b. The Department of Agriculture and the DCA should collaborate with recipient nations in the preparation of expanded food for development programs. Coordination between these agencies in Washington might be by means of a joint staff. Whatever the arrangements, they should provide for (i) a clear mandate to overseas missions, and (ii) competent staff overseas and in Washington.

c. The United States should continue to seek agreement on an international system of national grain reserves, and should be prepared to make large contributions to such a system, but it should be prepared to act

unilaterally in ensuring against shortfalls in developing areas if implementation of the international system is too long delayed.

#### 4. Security Supporting Assistance (SSA)

This category of aid, amounting to about \$1.9 billion in FY 1978, comprises more than 40 percent of total U.S. bilateral concessional aid and is substantially larger than the other two components of that category, Development Grants and Loans and Public Law 480. Ninety-three percent of the FY 1978 program is aimed at the Near East. Southern Africa will be a new area of concentration, at much lower levels.

This type of aid is provided to advance a U.S. security or foreign policy purpose. A review of past Security Supporting Assistance programs raises at least a question about how valid that justification has been, i.e., whether the programs have advanced U.S. foreign policy and national security purposes in a degree commensurate with their cost. On the other hand, the circumstances under which Security Supporting Assistance is provided make it difficult for the program to contribute effectively to a country's economic development. For one thing, it does not necessarily go to the countries that need it most and can use it most effectively, or in amounts that they can use effectively. For another, political imperatives inhibit both rejection by the United States of unsound projects and effective U.S. pressure for equitable and efficient development policies.

Because AID administers the program there is an inescapable tendency to expect that SSA funds will contribute substantially to development. The fact that such expectations are often unrealized hurts the agency's morale and reputation, even though the outcome is one that it cannot decisively influence.

The sheer size of SSA detracts from the sums that would otherwise be available for development assistance; and the fact that SSA is larger than development loans and grants detracts from the credibility of claims that the United States accords highest priority to the reduction of poverty in the poorest nations.

Recommendations:

a. The U.S. Government should set for itself the goal of reversing the present relative scale of development and security supporting assistance, and the upward trend of the latter.

b. All SSA funds except those required for the use of military facilities (which should be removed from this category of economic assistance and funded within the budget of the Department of Defense) should be appropriated to the Department of State and justified to the Congress by that Department both before appropriation and after expenditure.

c. A standard procedure for initiating and evaluating all SSA programs should be adopted within the Executive Branch. This procedure should require that in each instance there be identified

- the U.S. interest at stake;
- the way in which the proposed security assistance will advance that interest;
- the precise economic need, if any, to which such economic assistance is directed; and
- a program to reduce the economic need and ultimately eliminate the assistance program.

d. The Department of State should transfer SSA appropriations for

administration to the DCA, which should seek to administer funds for development purposes, without exaggerating--to itself or anyone else--the likely economic results.

### III. Multilateral Development Assistance

The evolution of the international development finance institutions is one of the great success stories of international collaboration and of U.S. leadership in the postwar period. These institutions include the IBRD/IDA/IFC, and also the Asian Development Bank, the Inter-American Development Bank, and the African Development Bank. All have concessional loan and non-concessional windows, the latter being substantially the larger of the two.

Over the years, these institutions have grown steadily. Multilateral aid as a percentage of total official development assistance was 30 percent in 1976, compared with only 17 percent in 1970. The absolute volume of aid provided through these institutions has risen sharply.

During these years other donors have increased their contributions more rapidly than the U.S., so that its share has declined in each multilateral institution. The U.S. contribution now averages about one third of these organizations' total funds.

The multilateral development finance institutions are generally acknowledged to be accomplishing their prescribed responsibilities efficiently. The World Bank group, in particular, is well managed.

They have generally been successful in emphasizing economic issues and in staying clear of the political ones. When political considerations prevented U.S. aid from going to India, for example, IDA continued to make

large loans to that country, laying a basis for further progress in the most heavily populated nation of the non-Communist world.

Four problems should be noted, however, in relation to U.S. support for the multilateral banks:

The first is the recently-adopted Congressional practice of appropriating callable capital for these banks' hard loan windows and of lumping it in one bill with both bilateral and multilateral concessional aid. Callable capital is a national guarantee of a development bank's bonds. The possibility that U.S. appropriated funds will be spent under such a guarantee is slight; it has never occurred. Yet, under this Congressional practice requests for appropriated funds for concessional aid, which will be spent, must compete with purely nominal transactions—appropriations in name only. This procedure may be consistent with the logic of Congressional control, but it is hardly a rational basis for deciding how much money to provide for non-concessional and concessional aid, respectively; it almost certainly reduces the funds available for the latter.

A second problem is how the policies and actions of the multilateral development banks are to be determined. In initiating establishment of the banks, the U.S. sought to raise more resources for development by offering to link its own contributions to input from other donors; it was also hoped that this would result in development financing that would be more politically neutral than bilateral programs. The price of such multilateralization is the loss of formal control over its contributed funds by any individual country. The logic of these institutions' operation is that members should have voting power in some rough relation to their contribution. In the absence of a majority contribution the U.S. should be prepared to accept

other countries' majority view. To try to exercise a veto by restricting contributions goes beyond this role and invites similar behavior from other countries. The banks could not function if members were allowed to veto the use of any part of their contributions. Congressional injunctions to the contrary, if allowed to become law, would destroy these institutions.

This is not to say that the United States should not seek to influence these institutions' policies, e.g., with respect to human rights, along the lines discussed earlier in this report. It is to say that we should not be surprised if, on occasion, a voting majority of other members takes a different view; we should recognize that this is an inescapable result of participation in a multilateral institution.

Third, there is a conflict between the desire of appropriations committees to appropriate funds on an annual basis and the need of the Executive Branch to negotiate replenishments or capital augmentation on a multi-year basis, several years ahead of actual funding needs. Each time since 1970 that the Executive Branch has negotiated and agreed with other countries on an increase, it has met resistance from the Congress. The consequence has been a cut, a delay, or both, in the provision of funds. In part, the problem arises from the changing role of the appropriations and authorizing committees of the Congress. In the past, the United States was regarded as legally committed once the bill authorizing a specific expansion had become law and appropriations were voted accordingly. This is no longer the case.

Fourth, there is the question of the future relation of multilateral to bilateral assistance. There are two issues here. One is how to promote

close concert between the two types of assistance: The United States should encourage the World Bank group to continue to form consortia, in which both bilateral and multilateral aid can be directed to common needs. The United States should support the Bank's World Development Review, which will permit bilateral and multilateral aid to be seen in relation to each other, to the developing and developed countries' broader policies, and to longer term goals. The other issue is whether the banks should be pressed to follow the current U.S. aid model represented by the New Directions. This would leave many types of needs in developing countries unmet. A wiser course would be to consider that multilateral aid should be used to finance the large scale capital-intensive projects needed for economic growth that do not fall within current guidelines for U.S. bilateral aid. This would permit high priority to be given to programs that will serve the mutual interests of both developed and developing countries--notably increased food output; health, education, and other projects that will help to reduce population growth; and expanded production of energy and raw materials in short supply.

The main point about multilateral financial aid, however, is that it is working. The need is not for radical change, but for continuation and expansion.

Recommendations:

a. The United States should provide strong support for the role of the international financial institutions, in general, and the World Bank group in particular -- in providing aid and in playing a leadership role through such means as consortia and the World Development Review.

b. To avoid competition for appropriations between programs that do not, in fact, compete for real resources, concessional and non-concessional appropriations should be presented in separate legislative bills.

c. The Executive Branch should invest substantial political capital in seeking to avoid any mandate to restrict the use of U.S. contributions to international banks.

d. The Administration should seek to fashion a new procedure, which would enable it to reach agreement in principle with the Congress before international negotiation takes place, while permitting it some flexibility for negotiation. One possibility would be to have informal discussions by the Secretary of the Treasury with the four relevant Congressional committees, before any executive branch commitments are made.

e. The United States should support continuing emphasis by the multilateral banks on large scale capital-intensive development projects and programs.

#### IV. Levels of Official Development Assistance

U.S. Official Development Assistance (ODA)--which includes bilateral and multilateral concessional aid--has remained at an average annual level in the neighborhood of \$4 billion over the past quarter century. Because of inflation, the real value of U.S. concessional aid has declined steadily to half of what it was during the 1950s. During the past decade,

on the other hand, aid from other OECD and OPEC countries grew severalfold in nominal terms. As a result, the U.S. share in total concessional aid fell from approximately 50 percent to about 34 percent during that period.

As a proportion of GNP, U.S. aid fell from half of one percent in 1965 to one quarter of one percent in 1976. This decline in U.S. aid occurred at the same time as a rise in aid as a fraction of GNP for all other OECD donors from 0.31 percent of GNP in 1965 to 0.42 percent in 1975. As a result, the United States fell from fourth to twelfth place (out of 16 donors) in terms of aid relative to GNP.

Several reasons explain this erosion of U.S. aid. First, the cold war gave way to détente and one of the prime stimulants of large aid levels was weakened. Second, U.S. involvement in the Vietnam war reduced Congressional support for U.S. aid. Finally, domestic social concerns received heightened attention and stimulated rapidly expanded domestic budget outlays.

U.S. spending on social objectives at home rose from \$216 per person in 1966 to \$572 per person in 1976. U.S. spending on foreign economic aid to developing countries during the same period fell about \$4.81 per person to \$1.59 per person. Thus, U.S. spending per capita on domestic social objectives rose from 44 times spending on international poverty in 1966 to 360 times in 1976. During this decade, per capita GNP in the United States rose from \$4,558 to \$5,404 in constant dollars in 1970. Per capita income in the developing countries rose in the same period from \$159 to \$186.

A significant attack on world poverty will require substantial increases in both bilateral and multilateral aid. In considering how large such an increase might be we have considered five factors that should figure in any decision.

Needs -- We have examined estimates of capital required to achieve specific rates of economic growth and of external resources required to satisfy basic human needs. Based on various assumptions, these estimates yield an annual U.S. concessional aid requirement in 1982 of \$7.8-\$10.2 billion (in 1977 dollars) if the U.S. share is 25 percent of the total, and \$10.2-\$13.5 billion if the U.S. share is 33 percent.

Absorptive capacity -- Individual country estimates and various aggregative measures using data on aid, GNP, and imports give little indication that the developing countries' absorption capacity imposes a meaningful ceiling, at least within any range that has been responsibly proposed, on the amount of aid that can be effectively used. Assuming normal investment and savings rates in the poor countries in 1982, it appears that they could then absorb between \$11.2 and \$14.9 billion (in 1977 dollars) annually from the United States, depending on its share of world aid. Both of these estimates are on the high side of the "needs" estimates noted above. Any increase would have to be gradual, however, to allow additional plans and projects to be developed by the recipient countries.

Burden on the United States -- A common measure of burden is the share of its output that a country devotes to a task. As indicated above, the U.S. burden has been reduced by one half over the last decade to 0.25 percent of its GNP. Resumption of the 1965 burden by 1982 would entail an ODA level of about \$10.8 billion (in 1977 dollars) or roughly double the present programs.

Relative Burden on the United States -- Other industrialized donor nations' aid now averages 0.42 percent of GNP. To assume a comparable burden, the U.S. program would have to total about \$9 billion (in 1977 dollars). If the U.S. program grows, the programs of Japan and Germany will probably expand as well, resulting in average burden for other donor nations

approaching 0.5 percent of GNP.

The Growth of Individual Channels (Table 1) -- Multilateral Institutions -- With pending approval by Congress of funds for the fifth IDA replenishment (IDA-V), amounting to \$800 million per year through June 30, 1979, negotiations on concessional funds during the next year will be limited to the three regional banks. A U.S. contribution to these banks in the same proportion as in the most recent replenishment could cost as much as \$350-400 million per year for three years. In terms of priority among claimants, that of the Fund for Special Operations of the Inter-American Bank seems to be least pressing. Only 29 percent of its funds are going to low income countries. IDA and the Asian Development Bank provide all of their soft loan loans to such countries.

The size of IDA-VI will become a matter for negotiation in late 1978. Since the developing countries appear to have the capacity to put to good use a substantially higher level of concessional aid over the years ahead, and since IDA appears to be an efficient means of providing this aid, it would appear in the U.S. interest to support an IDA-VI replenishment which would increase substantially, in real terms, the volume of concessional aid provided by this institution to developing countries.

The range shown in Table I assumes as the highest option an increase of over 50% in real terms in IDA's resources as a result of the IDA-VI replenishment.

A decision will have to be taken before then on a capital increase of the World Bank, which accounts for 75-80 percent of multilateral non-concessional credits. The major industrial nations meeting at the London Summit in May of this year agreed that the Bank's capital should

Table 1

Appropriations for Foreign Economic Assistance(in billion of constant 1977 dollars)<sup>a/</sup>

	<u>FY 1977</u>	<u>FY 1978</u>	<u>FY 1982 Options</u>		
	(est.)	(est.)	(1)	(2)	(3)
<u>Development Aid:</u>					
Multilateral Banks <sup>b/</sup> (concessional window)	.7	1.1	1.2	1.4	1.6
Development Cooperation Agency <sup>c/</sup> International Development Foundation	1.1	1.2	1.7	2.2	2.5
PL 480	1.2	1.4	1.8	2.1	2.4
UNDP	.24	.26	.3	.4	.5
Subtotal Development Aid	<u>3.24</u>	<u>3.96</u>	<u>5.5</u>	<u>6.7</u>	<u>7.7</u>
SSA	1.8	2.2	1.8	1.8	1.8
Multilateral Banks (Paid-in Capital)	--	--	.2	.3	.4
<u>Total, Concessional Aid</u>	5.04	6.16	7.5	8.8	9.9
<u>Multilateral Banks: Callable Capital</u>					
IBRD	--	0.5	1.0	1.5	2.0
Regional Banks	0.5	0.6	.6	.7	.8
Total, Callable Capital	<u>0.5</u>	<u>1.1</u>	<u>1.6</u>	<u>2.2</u>	<u>2.8</u>

## Note:

N. B. Multilateral is recorded on an appropriations and bilateral an obligation or authorization basis.

<sup>a/</sup> Assumes price inflation of 4 percent annually after 1977.

Table 1

b/ The real U.S. commitment to IDA-IV on the usual three-year basis was \$500 million per year. Special arrangements permitted four installments of \$375 million each. Two have not yet been paid but are not shown here. Therefore the actual appropriations may be higher but the realistic base for projections assumes \$800 million per year for IDA.

c/ AID

be increased sufficiently "to permit its lending to increase in real terms and widen in scope." Table I suggests that the requirement for U.S. callable capital might increase from an estimated \$.5 billion in FY 1978 to somewhere between \$1 billion and \$2 billion in FY 1982.

Bilateral Channels -- The uncertain elements in U.S. concessionary program are the feasible rates of expansion of bilateral development aid -- which would be provided, under the arrangements proposed in this paper, by the Development Cooperation Agency and the International Development Foundation. A doubling of the DCA in real terms, compared to the present AID program, would only be feasible if the legislation, broadened interpretation of new Directions, procedural streamlining, and personnel policies recommended earlier are instituted. The IDF should be able to open its doors in FY 1979 with at least \$300-\$325 million; expansion to twice that amount in three to four years might be feasible.

Our estimate that the PL 480 program might usefully grow 15 percent a year in constant dollars would mean that the program would double in real terms by 1982. Expansion to that level would require a new development mandate for the program; it would also require organizational arrangements and procedures that should make possible the allocation of more food for development projects.

The SSA program is assumed to remain stable in nominal terms at roughly the FY 1978 appropriations level; this would mean a decline of about 20 percent in real terms.

Recommendations:

1. Needs and absorptive capacity of the developing nations, absolute and relative burdens of the donors, and the capacity of different multi-lateral and bilateral channels to transmit U.S. assistance suggest that the

Executive Branch include in its long-range budgetary planning a large increase in concessional aid over the next five years. Without a significant increase in concessional assistance the strategy recommended in Part I of this report will be difficult to carry out effectively.

2. An increase of more than 50% in real terms of the U.S. contribution to IDA in its sixth replenishment would not only be warranted by the effectiveness of IDA operations but would be a major achievement in mobilizing other nations' resources for development. Roughly proportional but much smaller increases for the concessional windows of the regional banks seem called for, except for the Fund for Special Operations of the Inter-American Bank. Given the relatively high incomes of borrowers, a somewhat lower level of operations for this Fund would be consistent with the emphasis on concessional aid suggested above.

3. The Development Loans and Grants now administered by AID, could more than double in real terms by 1982 if efficient procedures, new legislation, new organization and substantial personnel strengthening were undertaken. We believe that substantially increased appropriations should be contingent on such improvements, which should be given high priority.

4. P.L. 480 can double in real terms if its objectives and procedures are altered as recommended.

5. Taking into account the considerations outlined above, and assuming that security supporting assistance is held constant or declines, Table 1 suggests that concessional aid in FY 1982 might, under the high option, reach about \$10 billion, in 1977 dollars. This would amount to a doubling of concessional aid in real terms over a five year period, and would bring Official Development Assistance as a share of our GNP up to about where the other DAC donors are likely to be.

## V. Coordination Within the U.S. Government

We have mentioned the many U.S. activities which affect economies of the developing world: Development Loans and Grants, Security Supporting Assistance, PL 480, contributions to concessional windows of international banks, guarantees of their capital, trade policy, commodity policy, contributions to the United Nations Development Program, international monetary policy, etc. Clearly, certain types of countries are more affected by some of these policies than others. We have noted that middle income nations are more dependent on trade than on concessional aid. Furthermore, some of these instruments are guided by objectives other than support of development. Nonetheless, all these activities are interrelated, and their interaction shapes prospects for development. It follows that inconsistencies among them should be minimized, gaps avoided, and a voice for development heard, when decisions are being made. They should, in short, be treated as parts of a whole. Within the U.S. Government, a focus and a structure should be created which would serve this purpose. Within such a structure a Coordinator might control some relevant activities, urge greater attention to development with respect to others, and bring discussion and decision-making together on all.

We have considered the following options to this end:

Option 1: The Coordinator would be in the Department of State, perhaps with an explicit Presidential delegation of power, such as was given to Under Secretary of State Douglas Dillon in the late 1950s. Some have suggested that an Under Secretary for Development be appointed; or the coordinating function might be assigned

to the Under Secretary for Economic Affairs. This option would put North-South issues in the foreign affairs establishment, of which it logically is a part. On the other hand, it might give development aid a political image and subject it to short-term foreign policy pressures. The Coordinator would also be regarded as a party of interest in any negotiation with other Executive Departments.

Option 2: Coordinating responsibility might be assigned to the Administrator of the DCA. He would have a solid base in expertise, staff and resources from which to operate. On the other hand, he would also be a party at interest to the many conflicts he sought to resolve within the Executive Branch; he would not control the great bulk of aid resources, which are multilateral; nor would he be seen as impartial in allocating resources between bilateral and multilateral aid.

Option 3: The coordinating function might be placed in the Treasury Department, building on Treasury's responsibility for U.S. participation in multilateral financial institutions. In addition to the disadvantage of assigning a coordinating role to a party of interest, the major weakness of this option is similar to that of the State Department-centered option: It puts the development function in a department primarily concerned with other matters. And it has the additional disadvantage of largely divorcing the function from foreign policy.

Option 4: The coordinating function might be placed in the

Executive Office of the President. The disadvantage of this option is that if all suggestions for locating coordination in the EOP were accepted, the Executive Office could become an unduly large body and departmental operations might be excessively hampered. On the other hand, problem-related, cross-cutting integration is a natural function of the EOP. The question is whether the problem is important enough and the need for integration great enough to warrant assignment of this function to the EOP.

The logic of option 4 seems to us to hold up better than the others, particularly if development policy is to be given the high priority which we think it should have.

The most important point, however, is not how coordination is achieved, but whether the need is recognized. Two precedents come to mind: The position that Averell Harriman occupied as Director of Mutual Security in the White House staff in 1951 and 1952, and the position that Douglas Dillon occupied as Under Secretary of State for Economic Affairs in the closing years of the Eisenhower administration. Both arrangements worked well. The choice of the person and the strong backing of the President are evidently the decisive factors, regardless of where the official sits in the government.

Recommendations:

1. A Coordinator for International Development Policy should be appointed, preferably in the Executive Office of the President.

2. Wherever he is located, the Coordinator's functions would be as follows:

- a. He should participate with the Office of Management and Budget in reviewing all budgetary requests having to do with international

development.

b. He should chair the Development Coordination Committee, which would be reduced in size to include on a regular basis only those agencies with a major interest in development matters, and would deal only with major development policies.

c. He should take part in inter-agency consideration of non-aid issues affecting development.

## Annex I

### Levels of Development Assistance

This Annex addresses two main issues:

1. How much aid should the U.S. provide the poorest countries, and through what instruments?

2. How does the continuing need for non-concessional credits primarily to middle income developing countries interact with the appropriation process for concessional aid?

The focus is on the first of these issues since this report deals primarily with official development assistance (ODA).

### Trends in Global Aid

Concessional aid, or ODA, consists of grants and loans with long maturity and grace periods and low interest rates. It is measured by DAC on the basis of disbursements net of repayment of loan principal, although for assessing the direction of policy change, figures on commitments are more useful.

As shown in Table 1, total ODA from all sources, including OPEC and the Communist countries, rose from approximately \$7 billion in 1965 to \$17 billion in 1975, in current prices. Because prices of relevant goods and services more than doubled in the period, global concessional aid in constant value terms rose by about 16 percent in the decade <sup>1/</sup> or by less than the rise in the population of the developing countries. This performance was achieved by the increasing aid efforts of other countries in the face of eroding real assistance from the United States.

TABLE 1. Total Official Development Assistance by Major Sources: 1965 and 1975  
(\$ billions, net disbursements) (Percent of global total in parentheses)

	1965		1975	
	<u>A</u>		<u>Current prices</u> <u>E</u>	<u>1965 price</u> <u>C</u>
I. OECD Countries				
Bilateral	5.6	(82)	9.8 (58)	4.6
(U.S.)	(3.4)	(50)	(2.9) (17)	(1.7)
(Others)	(2.2)	(32)	(6.9) (40)	(3.2)
Multilateral	0.4	(5)	3.8 (22)	1.8
(U.S.)	0.1	(1)	(1.0) (6)	0.5
(Others)	0.3	(4)	(2.7) (16)	(1.3)
Total	6.0	(87)	13.6 80	6.3
(U.S.)	(3.5)	(51)	(4.0) (24)	(1.9)
(Others)	(2.5)	(36)	(9.6) (56)	(4.4)
II. OPEC Countries				
Bilateral	-	-	2.2 (13)	1.0
Multilateral	-	-	0.6 (3)	0.3
Total	-	-	2.7 (16)	1.3
III. Centrally Planned	0.9 <u>a/</u>	(13)	0.8 (4)	0.3
IV. Grand Total	6.9	(100)	17.1 (100)	7.9

Source: OECD, Development Cooperation: 1976 Review, pp. 63, 82, 154, 165.

a/ 1972 figure.

b/ Based on DAC deflator for ODA, 1965-75.

As a result, the U.S. share in total concessional aid fell from approximately 50 percent to about 24 percent (including both bilateral and multilateral) during the course of the 1965-75 decade. The table also shows the growing importance of multilateral channels. Bilateral aid accounted for almost 95 percent of total aid from all sources in 1965, but represented about 75 percent of the total in 1975. For the OECD countries, the bilateral share dropped from about 95 to 72 percent.

The evolution of the American effort is presented in Table 2 and the accompanying graph. U.S. aid policy went through several phases until 1965. In each a new goal led to an upsurge and then waning interest either as a result of success or failure. The Marshall Plan in 1947 led to our peak effort. After 1953, when aid to Europe dwindled away, the support of various developing countries on the borders of what was then known as the Sino-Soviet bloc was the main thrust. In the early 1960s, a new commitment to economic development in Latin America and South Asia led to a new and large effort. The necessarily long-range (then misunderstood) nature of that commitment created disappointment with the pace of progress. That feeling was aggravated by disputes with major recipients (such as India), the involvement in Vietnam and AID's association with it, inflation, balance of payments deficits, and the preoccupation with social problems at home.

As the result of these influences, U.S. aid in real terms declined steadily through the decade ending in 1976. A moderate reversal of the trend occurred in fiscal 1977 because of increased aid to the Middle East and contributions to multilateral institutions.

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TABLE 2. U.S. Official Development Assistance: Obligations and Loan Authorizations, 1949-76

Fiscal Year	Development Assistance:		Assistance as
	Current Values (\$ millions)	Constant Values, 1970 prices (\$ millions)	Percentage of GNP
	(A)	(B)	(C)
1949-52 Aug.	4,658	7,429	1.53
1953-61 Aug.	3,007	4,367	0.61
1962-65 Aug.	4,260	5,434	0.57
1966	4,784	5,695	0.635
1967	3,943	4,558	0.495
1968	4,102	4,538	0.472
1969	3,524	3,713	0.377
1970	3,676	3,676	0.374
1971	3,442	3,275	0.324
1972	3,940	3,599	0.336
1973	4,117	3,552	0.319
1974	3,906	3,071	0.278
1975	4,908	3,549	0.327
1976	3,813	2,605	0.225
1977	4,903	3,190	0.263

Source: Column (A): A.I.D., U.S. Overseas Loans and Grants and Assistance from International Organizations, Obligations and Loan Authorizations, July 1, 1945- June 30, 1975; 1976 and 1977: Agency for International Development, Fiscal Year 1978 Submission to the Congress Summary, p. 25, 33.

Column (B): Applies GNP deflator calculated from International Financial Statistics, May 1976, pp. 382-3, and June 1977, p. 378.

Column (C): Ibid.

a/ Estimate.

# U.S. Foreign Economic Assistance (Annual)

\$ Billions in 1970 prices  
 (Left Scale)  
 Percentage of GNP  
 (Right Scale)

million

### Multilateral Hard Loans

Over the last decade the market-related lending of the various multilateral development banks has become an increasingly important source of capital transfers to the developing countries in both the low and middle income categories. Disbursement (net of principal repayments) rose from only \$400 million in 1965 to \$2.7 billion in 1975. In relation to concessional flows, this channel is still small but growing. In 1965, it was equal to about 6 percent of aid, while in 1975 it has risen to more than 16 percent. Commitment figures suggest that net disbursements will rise even more sharply in the next five years.

### II. How Much Aid is Needed? How Much Can Be Used? How Much Can We Afford?

In order to assess the appropriate level for U.S. official development assistance in the next five years we have considered the following approaches: (1) global aid needs; (2) absorption capacity of the developing countries; (3) the absolute aid burden on the United States; (4) the aid burden on the United States relative to GNP and relative to aid from other donors; (5) feasible growth of individual channels for U.S. economic assistance.

#### How Much Aid Is Needed?

Some calculations of aid requirements are based on either the target of meeting basic human needs by the year 2000 or raising per capita annual growth rates to some given level, usually in the range of 3 to 4 percent. Each must be based on a series of assumptions -- such as the intensity of trade restrictions in the developed countries, internal policies of the developing countries, and their projected population growth -- all of which are vulnerable and subject to challenge. The results are therefore best viewed as orders of magnitude. Yet the exercise is useful as a guide to planning. We have examined many of these estimates in reviewing our on analyses of aid levels.

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\$25 billion in 1977 prices).<sup>5/</sup> If per capita aid requirements of other poor countries (under \$520 per capita income) not included among the 42 MSA countries were assumed to equal those of the MSA countries, the corresponding global aid requirements for poor countries would be \$36 billion in 1980 (at 1977 prices).<sup>6/</sup>

Both of these estimates for aid requirements in the next five years assume that ODA is phased out to countries at income levels higher than \$520. If concessional aid to middle and higher income countries remained at present levels, then approximately \$4 billion would have to be added to these estimates of global requirements.<sup>7/</sup>

(b) Basic Human Needs. Another way to estimate global aid needs is to focus on the requirement to meet basic human needs rather than to achieve particular annual growth rates. This is complex exercise, since any conclusions as to what basic needs should be met, and where, are at best judgmental. A recent (August 1977) paper by World Bank experts estimated that additional investment costs would be about \$12 billion a year in 1975 dollars between 1980 and 2000 in low income countries to meet basic needs for food, water and sewage, housing, health and education.<sup>8/</sup> For all developing countries, the additional investment would be about \$19 billion a year. The recurring costs would be even greater, particularly in such fields as health and education. The paper estimated these at between \$28 and \$40 billion a year. For low income countries alone, this approximation of annual costs for both investment and operations is between \$30 and \$40 billion, which the paper estimates is 12-16 percent of their average GNP for the period 1980-2000, 80-105 percent of their gross domestic investment, and 85-110 percent of their government revenues.

In order to translate these estimates into aid requirements, it might be assumed that the rich countries would undertake half of the cost of a basic human needs program for the low income countries, or approximately \$20 billion annually (in 1975 prices) by 1980. If this incremental program is added to a basic level flow of concessional assistance to the poor countries on the order of \$11 billion,<sup>9/</sup> total aid would be on the order of \$31 billion per year by 1980.

#### How Much Aid Can be Used Effectively?

It is also important to consider the limits on the absorptive capacity of the developing countries. Their capacity to absorb aid varies. For many of the very poorest, project creation requires a great deal of outside assistance. But most of the countries in the low income category have been engaged in development programs for some time. A substantial per annum rise in aid should be within their capacity, given some initial preparation. India is a major case in point. It possesses the personnel and much of the infrastructure required. Given a certain amount of flexibility in aid procedures, there is no reason why India could not absorb a substantial level of aid under a resumed U.S. program.

As a rough approximation, it should be within the capabilities of even very poor countries to carry out development programs involving investment of up to 20 percent of GNP. Domestic savings rates typically will be on the order of 10 percent of GNP in the low income countries. Thus, there is room for effective use of foreign capital to fill the resulting resource gap of 10 percent of GNP.<sup>10/</sup> Applying this criterion of 10 percent to the estimated

aggregated GNP for poor countries in 1982, the result is an absorptive

capacity limit of \$45 billion (in 1975 prices) for global concessional aid.

The financing requirements of middle and upper income developing

countries pose different but related kinds of issues. Although the require-

ments for meeting the basic human needs of the roughly 150 million people

living in absolute poverty in these countries<sup>11/</sup> are extensive, these countries

are better able to cover these costs from their own resources. As noted

elsewhere in this report, the middle and higher income developing countries

can rely on trade earnings, on privately provided debt to cover current

account deficits, and on financing from the regular windows of the multi-

lateral development institutions to sustain their growth, whereas the low

income countries are dependant on official concessional assistance to sustain

their development programs.

#### How Much Aid Can We Afford?

Providing resources for poor people in foreign countries represents a

sacrifice, since these resources are not then available for use at home

(although the real sacrifice is lower when unemployed resources exist at home).

The long run real decline in U.S. ODA levels demonstrates that the choice

between domestic and foreign expenditures at the margin has been in favor of

domestic uses. One vivid illustration is the comparison between outlays on

social programs at home and on social and economic programs abroad. Federal

budget outlays in the domestic areas of education, manpower, social services,

health, and income security rose from \$42 billion in fiscal year 1966 to \$122

billion in fiscal year 1976, in constant 1970 dollar prices, a rise of 190

percent.

As shown in Table 3, U.S. spending on foreign economic aid to developing countries fell from \$4.81 per person in the developing countries in 1966 to \$1.59 per person in 1976, in 1970 dollars. At the same time, U.S. spending on social objectives at home rose from \$216 to \$572 per person. Thus, U.S. spending per capita on domestic social objectives rose from 44 times per capita spending on international poverty in 1966 to 360 times that spending in 1976. During the decade, per capita GNP in the United States rose from \$4,558 to \$5,404 in constant dollars of 1970. Per capita income in the developing countries rose from \$159 in 1966 to \$186 in 1976.<sup>12/</sup>

Given this trend, net aid outlays are now about equal to one quarter of one percent of U.S. gross national product as compared to one half of one percent a decade ago. The problem then is not the size of the sacrifice but our willingness to make it.

The absolute amounts involved are not large. If all official development assistance from the United States were doubled from its base of \$5.0 billion in fiscal year 1977, then aid would rise to \$10 billion. Presumably this goal would be met gradually, say by the end of five years. If, instead, only a narrower concept of "development aid" were used, excluding security supporting assistance (even though part of it is developmental), the rise would be from \$3.2 billion in FY 1977 to \$6.4 billion in FY 1982. If an even narrower concept were applied, development through the Agency for International Development, the rise would be from a base of \$1.1 billion in FY 1977 to \$2.2 billion in FY 1982.<sup>13/</sup>

These figures reflect the absolute aid burden. Another approach is to consider the relative aid burden.

TABLE 3. Changing U.S. Priorities: Foreign Economic Aid and Domestic Social Spending, 1967 - 1976 (Constant dollars of 1970)

Fiscal Year	Foreign Economic Assistance		Domestic Social Spending, Federal Budget		Ratios	
	Total (\$ millions)	Per capita of LDC population (\$)	Total (\$ millions)	Per capita of U.S. population (\$)	C/A	D/E
	A	B	C	D		
1966	5,695	4.87	42,412	215	7.4	44.5
1967	4,558	3.76	50,408	254	11.1	67.6
1968	4,538	3.65	55,743	278	12.3	76.2
1969	3,713	2.92	58,915	291	15.9	99.7
1970	3,676	2.82	64,005	312	17.4	110.4
1971	3,275	2.46	80,099	387	24.4	157.1
1972	3,599	2.64	85,034	407	23.6	154.1
1973	3,552	2.54	89,443	425	25.2	167.1
1974	3,071	2.15	92,850	438	30.2	202.7
1975	3,549	2.42	109,544	516	30.8	213.1
1976	2,391	1.59	122,280	572	51.1	359.1

Source: Col. A, table 1. Col. B divided by population of all countries having per capita income below \$500 in 1974, excluding mainland China. Col. C calculated from U.S. Government, The Budget of the United States Government: Fiscal Year 1976, p. 362 and Fiscal Year 1978, p. 428. Refers to the sum of education, manpower and social services; health; and income security. Figures here obtained using GNP deflators cited in Table 1. Col. d; divides Col. C by U.S. population as reported in International Financial Statistics.

Relative to capacity to pay, the best known basis for determining appropriate levels for concessional aid is the United Nations target for Official Development Assistance of 0.7 percent of donor GNP. This target was recommended by the Pearson Commission in 1968.<sup>14/</sup> In 1970 it was adopted by most developed countries, although not by the United States, as part of the United Nations International Strategy for the Second U.N. Development Decade.<sup>15/</sup> If a 0.7 percent target were met, U.S. ODA would be on the order of \$15 billion in 1982 (at 1977 prices), assuming real growth of U.S. GNP at 4 percent per annum.<sup>16/</sup> It has been suggested that a more realistic target for U.S. aid as a percentage of GNP would be 0.5 percent. This target would represent approximately a doubling of the U.S. aid effort expressed as a fraction of GNP from its FY 1977 level, and would imply U.S. official development assistance of \$10.8 billion in FY 1982 (at 1977 prices).

Another approach to relative aid burden is to apply it in terms relative to other donors. From Table 4, it is apparent that we have dipped well below the level that other developed countries are prepared to provide (0.42 percent of their combined GNP in 1975) and far behind the Scandinavian countries, the Netherlands, France, and Canada which range from 0.6 percent to 0.8 percent of GNP.

Or we may ask what share of global aid should come from the United States. The most meaningful basis for answering this question is the gross national product, which represents the capacity to pay. The United States accounts for 38 percent of the combined GNP of OECD donors and OPEC donors.<sup>17/</sup> Therefore on the basis of capacity to pay, the United States could be expected to provide 38 percent of global aid. In the past, however, the Congress has

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TABLE 4. Official Development Assistance at a Percentage of 1965-76 Donor GNP, Net Disbursements Basis (Rank in Parentheses)

	1965	1970	1975	1976
United States	0.49( 4)	0.31(11)	0.26(12)	0.26(12)
France	0.76( 1)	0.66( 1)	0.62( 4)	0.62( 4)
United Kingdom	0.47( 5)	0.36( 8)	0.37(11)	0.38(10)
Germany	0.40( 6)	0.32( 9)	0.40(10)	0.31(11)
Japan	0.27( 9)	0.23(12)	0.24(13)	0.20(13)
Australia	0.53( 3)	0.59( 8)	0.61( 5)	0.42( 8)
Belgium	0.60( 2)	0.46( 4)	0.59( 6)	0.51( 6)
Canada	0.19(10)	0.42( 5)	0.58( 7)	0.47( 7)
Netherlands	0.36( 7)	0.61( 2)	0. 5( 2)	0.82( 1)
Italy	0.10(15)	0.16(14)	0.11(17)	0.16(16)
Sweden	0.19(10)	0.38( 6)	0.82( 1)	0.82( 1)
Denmark	0.15(13)	0.38( 6)	0.58( 7)	0.57( 5)
Switzerland	0.08(16)	0.15(15)	0.18(14)	0.19(14)
Austria	0.11(14)	0.07(16)	0.17(16)	0.10(17)
Norway	0.16(12)	0.32( 9)	0.66( 3)	0.71( 3)
New Zealand	0.23( 9)	0.23(12)	0.52( 9)	0.42( 8)
Finland	0.03(17)	0.07(16)	0.18(14)	0.18(15)
Total	0.44	0.34	0.36	0.33
Non-U.S.	0.31	n.a.	0.42	n.a.

Source: OECD, Development Cooperation 1976 Review, op. cit., p. 155; and preliminary OECD data for 1976.

pushed for U.S. shares as low as 25 percent in contributions to multilateral lending institutions. The fact that the United States bears an unusually high share of the international burden in other areas, especially defense spending, is one reason often cited for this sentiment.

Table 5 summarizes the various estimates of global aid needs and LDC absorption capacity, and considers two alternative shares for U.S. aid: a low of 25 percent (about the current U.S. share), and a high of 33 percent (still below the U.S. share in donor GNP). The table also represents the U.S. figures under alternative "absolute burden" approaches, and on the basis of alternative percentage of GNP targets.

From the array of aggregate U.S. aid levels shown in Table 5, a level of approximately \$10 billion in FY 1982 (at 1977 prices) appears to emerge under several different conceptual approaches. We recognize that this represents a "high option", for a variety of reasons -- including the major political effort that its achievement would involve.

Table 5

Alternative Estimates of Global and U.S. Concessional Aid  
in 1982 ( \$ billions in constant dollars of 1977)

Approach	Global Aid	U.S. Aid	
		(a) at 25 percent of total	(b) at 33 percent of total
I. Developing Country Needs			
A. Two-gap			
1) At 4 percent percapita income growth (IBRD-based estimate)....	41	10.2	13.5
2) At 3.5 percent percapita income growth(UNCTAD estimate) .....	36	9.0	12.0
B. Basic human needs .....	31	7.8	10.2
C. Absorptive capacity .....	45	11.2	14.9
II. Donor Country Burden			
A. Double U.S. aid			
1) total official develop. asst. ..	n.a.	--- 10.1 ---	---
2) development only <sup>a</sup> .....	n.a.	--- 8.3 ---	----
3) A.I.D. development only <sup>a</sup> .....	n.a.	--- 6.1 ---	----
B. 0.7 percent of GNP target .....	39	--- 15.0 ---	----
C. 0.5 percent of GNP target .....	28 <sup>b</sup>	--- 10.8 ---	----

Source: see text

Notes: a. Assumes other categories remain at real FY1977 levels.

b. For other donors as well as United States

### III. Possible Options

We have tried to project ahead over five years how the U.S. development assistance program might evolve, based on the following considerations:

1. Stressing the objective of helping the poorest countries, which means that our focus is concessional development assistance in its various forms.

2. Concentrating on what is controllable by the President and the Congress, namely appropriations and commitments over this period rather than disbursements.

3. Looking at the tradeoffs that might exist among the various instruments in the competition for appropriations.

4. Keeping in mind the above estimates for alternative aggregate levels of U.S. concessional aid.

Our grouping of instruments in the following tables is designed to highlight these considerations. The existing programs which most closely meet the objective of assisting poor countries in their development are AID's functional development assistance, contributions to the soft funds of the multilateral institutions, PL 480, and voluntary contributions to UN programs. This arrangement tends to treat PL 480 as fully equivalent to the other three forms of concessional assistance, although it is not. By omitting security supporting assistance, it understates whatever impact on development this type of aid has.

What the table shows is that much of what is conventionally regarded as aid in the budget and in Congressional deliberation either is not concessional or is not development oriented. Therefore, each major category is treated separately, bearing in mind its relation to the

total level of concessional development assistance.

Our projections by aid instrument attempt to take account of any possible limits on absorption capacity from the standpoint of the aid channels themselves caused by managerial problems.

The major assumptions and rationales for the figures in the table are the following:

a. The IDA-VI replenishment will be 50 to 100 percent greater, in nominal terms, than IDA-V, which for the U.S. involved appropriations of \$800 million a year for three years. Past IDA replenishments have generally represented an increase of more than 50 percent in nominal terms. A 50 percent nominal increase for IDA VI would permit a moderate rise after accounting more for inflation, while a 100 percent increase would allow for substantial real growth in IDA operations (by approximately 64 percent, assuming average inflation of 4 percent annually through 1982). This large an increase in IDA, with the U.S. share staying roughly constant at one-third, would be a major achievement in mobilizing international resources for the poor countries.

b. The relatively smaller increase projected for the soft loan facilities of the regional development banks reflects some shifts among them, namely a constant and lower level for the Fund for Special Operation of the IDB, given the relatively high incomes of most of its borrowers, and increases for the Asian and African Development Banks, which have many poorer borrowers.

c. Other than IDA, the critical element in U.S. concessional programs is AID's bilateral development aid. This is assumed at a minimum almost to double in real terms over five years, and

at a maximum to rise considerably more. If the U.S. is to approach aid levels comparable in GNP terms to those of other countries, this program might have to triple in real terms, as shown in the "high option." This estimate assumes that a program in India will be resumed, that African programs will be expanded, and that AID organization and procedures will be revised to permit such growth.

d. The PL 480 program is estimated to grow at roughly 15 percent a year in constant dollar terms, doubling by FY 1982. PL 480 is unlikely to rise smoothly each year but rather to fluctuate, depending on needs and commodity availabilities. Doubling the size of the program would require procedures to avoid the disincentive effects of food aid.

e. The growth in voluntary contributions to UN programs assumes that the U.S. share remains constant.

f. The security supporting assistance program is estimated to remain stable in nominal terms at roughly the FY 1978 level of appropriations, and therefore would decline by about 20 percent in real terms.

g. We have not tried to project what the U.S. position should be on the next capital increase of the World Bank but have included a range of \$20-40 billion.

h. Callable capital is not shown as concessional aid; it would not lead to new disbursements of public funds except in the unlikely case of a default so large as to overwhelm the reserve funds of the international lending agency concerned.

### Conclusions

Table 6 describing the foregoing options can be summarized as follows:

1. Omitting callable capital, the budgetary outlay range is between \$7.5 and \$9.9 billion in U.S. FY 1982, in 1977 dollars.
2. The high option for concessional aid would represent 0.46 percent of GNP, raising the U.S. aid effort and to nearly the level sustained by the United States throughout the 1950s and early 1960s, and to approximately the average aid effort likely to be forthcoming from other donors. (Other donors already provide 0.42 percent of their GNP, and Japan and Germany appear likely to raise their aid substantially if the United States does so as well).
3. Omitting security assistance and paid-in capital, FY 1982 concessional development assistance is shown as ranging between \$5.5 and \$7.7 billion in 1977 dollars. This compares with \$3.2 billion committed in FY 1977 and about \$3.9 billion (requested) in FY 1978.
4. Callable capital is shown as rising from \$500 million in FY 1978 to a range of \$1.6 to \$2.8 billion, in 1977 dollars in FY 1982. The extent to which callable capital is treated as competitive with concessional aid in the appropriations process is discussed elsewhere in this report.
5. Other concessional assistance (supporting assistance and paid-in capital) holds constant at \$2.2 billion. This estimate involves declining real supporting assistance, offset by rising paid-in capital to multilateral banks.

Table 6. Appropriations for Foreign Economic Assistance (in billion of constant 1977 dollars)

	FY 1977 (est.)	FY 1978 (est.)	FY 1979 Options		
			(1)	(2)	(3)
<u>Development Aid:</u>					
Multilateral Banks <sup>a/</sup> (concessional window)	.7	1.1	1.2	1.4	2.
Development Grants and Loans			(2.2)	(2.8)	(3.
Development Cooperation Agency	1.1 <sup>b/</sup>	1.2 <sup>b/</sup>	1.7	2.2	2.
International Development Foundation	--	--	.5	.6	.
PL 480	1.2	1.4	1.8	2.1	2.
UN	.24	.26	.3	.4	.
Subtotal, Development Aid	<u>3.24</u>	<u>3.96</u>	<u>5.5</u>	<u>6.7</u>	<u>7.</u>
SSA	1.8	2.2	1.8	1.8	1.
Multilateral Banks (Paid-in Capital)	--	--	.2	.3	.
<u>Total, Concessional Aid</u>	<u>5.04</u>	<u>6.16</u>	<u>7.5</u>	<u>8.8</u>	<u>9.</u>
<u>Multilateral Banks: Callable Capital</u>					
IBRD	--	0.5	1.0	1.5	2.
Regional Banks	0.5	0.6	.6	.7	.
Total, Callable Capital	<u>0.5</u>	<u>1.1</u>	<u>1.6</u>	<u>2.2</u>	<u>2.</u>

Note:

N.B. Multilateral is recorded on an appropriations and bilateral on an obligation or authorization basis.

a/ The real U.S. commitment to IDA-IV on the usual three-year basis was \$500 million per year. Special arrangements permitted four installments of \$375 million each. Two have not yet been paid but are not shown here. Therefore the actual appropriations may be higher but the realistic base for projections assumes \$500 million per year for IDA.

b/ AID

#### IV. Country Allocation of Aid

At the present time bilateral concessional aid, including that of the United States, goes chiefly to the poor developing countries (those with per capita incomes below \$500), while middle income countries receive financial support from the hard term loan windows of multilateral institutions. This pattern makes sense. Concessional aid is so scarce that it should be reserved for the poorest developing countries alone. Those middle income countries that have major pockets of severe poverty can draw upon internal resources and external resources secured from non-concessional sources to deal with those areas. Erosion of the principle of reserving concessional funds for the poorest countries would jeopardize the whole process of aid "graduation," whereby countries are expected to graduate from the ranks of concessional aid recipients once they are able to rely on their trade earnings and market, or market-like credits.

At the level of detailed country distribution of concessional aid from all sources, Table 7 suggests the following patterns: (1) A "small country bias" exists; smaller countries tend to get more aid per capita than large countries (with countries such as Reunion and Guadelupe at one extreme and India at the other). (2) Aid per capita varies erratically among countries, suggesting that equity plays a subordinate role in the allocation of source funds.

Table 8 contains the country distribution of U.S. concessional economic assistance through AID (including supporting assistance), P.I. 480, and the Peace Corps for FY 76. The table shows the following patterns. (1) U.S. aid per capita is extraordinarily high for Israel. (2) U.S. concessional aid to Latin America has entered a prolonged period of

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Table 7 - Per capita Aid to Countries Receiving More than \$100 Million in Official Development Assistance in 1974 or 1975

(Values in Millions)

Country	Net Receipts of ODA		ODA Per Capita	Aid/ Imports,
	1974	1975	1975(\$)	1974(%)
	A	B	C	G = A/E
<b>I. Africa</b>				
Algeria	123	131	8.6	3.0
Morocco	112	179	11.0	5.9
Tunisia	153	140	25.5	6.8
Arab Rep. of Egypt	160	324	8.9	13.6
Cameroon	65	103	14.5	14.9
Zaire Rep.	187	191	2.9	17.8
Ethiopia	127	117	4.3	46.5
Ghana	41	118	12.3	5.0
Kenya	119	123	9.5	11.6
Mali	108	102	18.2	60.0
Nigeria	73	118	1.6	26.3
Reunion	217	260	520.0	64.5
Senegal	105	126	25.7	21.1
Tanzania	162	227	19.2	21.5
<b>II. Central America</b>				
Guadeloupe	102	150	375.0	43.9
Martinique	106	165	412.5	36.2
Brazil	169	163	1.6	1.2
Chile	24	126	12.1	1.3
Columbia	109	91	3.9	6.8
<b>III. Asia</b>				
Israel	118	467	134.7	2.7
Sri Lanka	81	137	10.2	11.3
India	1,123	1,389	2.3	22.3
Pakistan	366	426	6.3	21.1
Bangladesh	487	922	12.1	44.4
Khmer Rep.	308	83	10.8	--
Indonesia	663	677	5.3	17.3
Rep. of Korea	252	240	15.6	3.7
Philippines	158	182	4.4	4.6
Rep. of Vietnam	673	215	4.9	--
<b>IV. Oceania</b>				
Papua New Guinea	263	304	112.6	53.7

Source: Column A, B: OECD Development Cooperation: 1976 Review, op. cit., pp. 244-245. Column C: Calculated from Column B and from World Bank

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phase out; such major countries as Brazil, Mexico, and Argentina receive minimal amounts of such aid because of their "graduate" status, but they receive substantial support from the IBRD and IDB. U.S. aid is high in per capita terms in Central America, Bolivia, the Dominican Republic, and Haiti. (3) The table shows comparatively low per capita U.S. aid for India (P.L. 480 only; there is no AID program in India). (4) Some relatively high income countries receive considerable P. L. 480 aid (Korea, Chile). (5) There is a wide dispersal of relatively low levels of aid to a large number of African countries (many not shown in the table). Thirty-eight African countries received aid of less than \$10 million each.

These patterns suggest further study of the following questions:

- (1) Is the allocation of P. L. 480 aid rational in terms of country need and overall development assistance? Might continued P. L. 480 aid to high income countries be more effectively used elsewhere?
- (2) Does the continued exclusion of India from substantial U.S. assistance have merit any longer, if ever it did, since the nation represents the largest concentration of extreme poverty and has resumed democratic government?
- (3) Is the dispersal of relatively small amounts of aid over a large number of countries desirable? Can minor amounts of aid accomplish U.S. objectives? Extremely high concentrations of aid already exist for countries of great immediate political importance to the United States (such as Israel, Egypt, Jordan, Korea, Portugal). Should there be comparable concentrations for development purposes focused on a broad spectrum of poor countries rather than for selected client countries?
- (4) Is the continued use of concessional aid in middle and high income

developing countries consistent with the principle of "graduation" and ultimately ending concessional aid?

V. Terms of Aid

U.S. official development assistance is highly concessional; its "grant element" was 90.5 percent in 1974 and 85.7 percent in 1975.

The high level of grant equivalent in U.S. aid represents a considerable achievement and asset, especially in the light of continuing problems of international indebtedness of developing countries.

With respect to the tying of aid, U.S. performance is less impressive. Of total U.S. Official Development Assistance in 1975, 59 percent was wholly tied to purchases from U.S. suppliers. The corresponding figure for all other Q.E.C.D. donors was only 39 percent.<sup>17/</sup> The loan tying figure for other donors partly reflects their greater reliance on multilateral aid.)

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Notes - Annex 1

1. According to the Development Assistance Committee (DAC) of the OECD, the price deflator for ODA rose from an index of 100 in 1965 to 215 in 1976. Calculated from OECD, Development Cooperation: 1976 Review (Paris: November 1976), p. 154.

2. M. Chenery and A. Strout, "Foreign Assistance and Economic Development," American Economic Review, 56:4 (date) pp. 679-733.

3. IBRD, Future Role of the World Bank and Its Associated Capital Requirements (1977), p. 4.

4. Raising per capita growth from 1.5 percent to 4 percent would require that aid increase by an amount equal to 7 1/2 percent of recipient country GNP (under normal capital/output ratio assumptions). We estimate GNP for countries with present per capita income under \$520 will be an aggregate of \$449 billion in 1982 (in 1977 prices, assuming 5 percent annual real growth). Calculated from World Bank Atlas, 1976, p. 6. Thus, extra aid required would be \$34 billion and total aid required, including the initially estimated resource gap of \$7 billion, would be \$41 billion (in 1977 prices).

5. UNCTAD, Trade Prospects and Capital Needs of Developing Countries, 1970-1980 TD/B/C.3/134, 1976, p. 3.

6. Calculated by comparing total population for the group with MSA country population; World Bank Atlas 1975, and United Nations, Development and International Economic Cooperation A/10201, 1975, pp. 6-8.

7. In 1975 countries with per capita income above \$520 received \$3.3 billion in net concessional aid disbursements. Calculated from OECD, Development Cooperation 1976 Review, p. 245.

Shahid Javed Burki, et. al., "Global Estimates for Meeting Basic Needs" Background Paper, August 19, 1977.

9. In 1975 net disbursements to the poor countries (under \$520 per capita) were \$6.2 billion from OECD countries, approximately \$2.2 billion from OPEC countries, and approximately \$500 million from Communist countries, OECD, Development Cooperation: 1976 Review, pp. 244-45; 115; 63.

10. Note that in 1974 concessional aid was far below 10 percent of recipient country GNP in the vast majority of low income countries. For example, aid amounted to 6.2 percent of GNP in Bangladesh, 1.6 percent in Egypt, 4.8 percent in Ethiopia, 4.2 percent in Pakistan, 1.2 percent in the Philippines, 3.0 percent in Indonesia, 616 percent in Senegal, and 5.3 percent in Zaire.

11. The figure comes from the World Bank

12. For these comparisons we include the "developing countries" all those countries with income of \$500 or less per capita in 1974. Calculated from World Bank Atlas 1976.

13. For FY 1977 figures see table 6 below.

14. Lester B. Pearson, Partners in Development (New York: Praeger, 1969), p. 149.

15. John W. Sewell, The United States and World Development: Agenda 1977 (New York: Praeger, 1977), p. 126.

16. Calculated using 1976 GNP base as reported in International Financial Statistics, June 1977. Note that the U.N. aid target is stated in terms of net disbursements as a percent of donor GNP. Because of lags between commitments and disbursements, it would be extremely unlikely that net disbursements could be raised to 0.7 percent of GNP (from their 1976 base of 0.26 percent). We consider commitments to be the more meaningful figure for policy purposes, and the percentage of GNP targets discussed here represent commitment targets.

17. O.E.C.D., Statistics on Aid Tring (Paris, 1977), p. 3.

## Annex II

### Technology Development and Collaboration

#### Technology and Development

Improved technology, defined simply as knowledge systematically applied to practical tasks, is indispensable to development. People must learn ways to be more productive if they are to raise their general standards of living. But technology does not exist in a vacuum. Changing technology implies changing institutions, policies, and individual behavior as well. Consequently, few aspects of development are more complex than the process of finding or creating more useful technologies, and devising institutional and policy frameworks conducive to their use within the context of the needs, values and objectives of the people involved.

The common perception of the need for developing countries to employ more productive technology and the demonstrated existence of more efficient and effective technology in the advanced countries provided the basis for large-scale technical assistance programs of the past three decades. An unprecedented sharing of knowledge has occurred through international education, advisory assistance and transfers of capital goods to less developed countries.

Perhaps the most difficult lessons of this international effort to spread the benefits of modern technology throughout the world concern the limitations of existing knowledge and practices in other geographical, social, and cultural settings. Surprisingly few processes, techniques, policies, or institutions are transferable without adaptation or without undesirable side-effects.

The process of development can be described as one in which adaptation

### Technical Assistance: Sharing Modern Knowledge

The United States, as the country with the most completely articulated systems for creating and using modern knowledge of any large nation, has since the Second World War been recognized as a vital source of both funds and technology. U.S. institutions have mobilized to offer technical assistance and to share existing knowledge. Invaluable as this process has been, however, the limitations of direct transfers of technical knowledge and processes are now becoming better understood.

Probably the largest transfer of knowledge has occurred through publication. The Japanese made extensive use of Western scientific and technical publications between the wars, employing thousands of translators in the task. They then designed their own institutions to use the knowledge, a process that has enabled them to become efficient producers.

Translation is still useful, but the quantity of scientific and technical information now in existence is many times that of the interwar period. It is also a time-consuming and expensive process. Instead, most societies today make use of the material in English, which has become the dominant world technical language. This has the advantage that access is available without the delays of translation; but it has the disadvantage of widening the gap between the highly educated and the rest of the society, for only those trained technically and in the English language have access to the knowledge.

Training in American institutions is another important means of transferring knowledge. Approximately 150,000 foreign students per year now attend American universities and colleges, gaining technical and scientific knowledge needed at home, and making friends and professional contacts which they frequently maintain throughout their professional careers.

Although this process is advantageous to both the United States and

the developing countries, it has several familiar disadvantages:

- It is costly, which means relatively few individuals from the poor countries benefit from it. Often the children of wealthy families are the main beneficiaries, perpetuating and reinforcing class distinctions.
- Even when scholarship funds are available, and intellectual and professional elite is created.
- The American system of higher education is so diverse that the placement of foreign students in the United States is somewhat haphazard, both for the students and for universities.
- Students are often poorly prepared to take full advantage of American higher education because of language problems and learning habits.
- Courses, designed to meet the needs of American society, prepare people to work under physical, social, and financial conditions which may not exist at home.
- Large numbers of students remain here for their professional careers, for reasons related to the kind of training that they have received and the institutional setting in their home countries.
- Those students who return home may have difficulty relating their knowledge to the problems of their societies.

Despite these serious problems, training foreign students has probably been the most useful and lasting form of technical assistance. Basic scientific and technical knowledge, the techniques of discovery and

verification, and a problem-solving orientation -- once acquired -- are invaluable assets for the individual, themselves, and for their societies. Many of the defects listed above could be mitigated by structuring programs with the special needs of foreign students in mind.

Another form of the direct transfer of knowledge is the employment of Americans in advisory and operational posts abroad. This wave crested in the 1960s and has fallen to much lower levels recently. In 1973, approximately 12,000 publicly supported American experts and volunteers served abroad, about half the number of a decade earlier. The decline has several causes, including increased costs of supporting Americans abroad, which will rise sharply under the new tax laws, and diminishing sources of public and private funds. More important is the increase in trained people locally available, and the rise of national sensitivity to the presence of foreigners in key posts.

U.S. experts and advisers serving abroad are naturally limited by their own experience in what they can offer, but the most sensitive and adaptable have frequently made the transition to a new and strange environment successfully; in such cases, the didactic phase of technical assistance, once described as "know-how, show-how." is a thing of the past.

An additional important form of direct transfer of scientific and technical knowledge is embodied in capital goods and the productive systems employed in their use. Equipment sales and grants, and investments by U.S. firms are commonly thought of first among the forms of the transfer of technology.

Although capital goods may seem to be different in kind from training and advisory assistance, machinery can be considered to be a physical expression of technical knowledge. However, the main difference between capital goods transfers and training/advice, for this discussion,

is that the greater the concentration or complexity of the capital goods in question, the less flexible are its uses; whereas a highly trained doctor may be more able than a medical technician to adapt his skills to another environment, a more complex piece of machinery is less adaptable than a simpler tool.

Investment by private multinational firms in lower income countries has become increasingly important recently in transferring technology and managing production. Their operations are encountering mounting criticism. Developing countries increasingly want a greater share of ownership and control of their productive assets, a wider range of products to meet low income needs, techniques better adapted to local markets and factor availabilities, and more training for local people. The international patent system has also come under attack as a barrier to the acquisition of technology by developing countries.

Each of these means of transferring technology has had important beneficial effects in the developing countries, and all will have continued value in the future. Their most obvious limitation is their dependence on the existing stock of knowledge and on systems devised in the developed world with only partial relevance to developing country conditions. As a result of direct transfers, distortions and inequities have emerged or increased in the economic and social systems of the developing countries.

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research and development institutions is needed for the task, and here the disparity of local capacities among the developing countries is most evident. Regional and international centers for adaptive research and experimentation also have great potential, as is illustrated below in the food production field.

In the biological fields, agriculture and medicine, basic knowledge on which to build improved technology is sometimes inadequate. Research priorities in advanced countries have naturally reflected their concerns, so that malaria and bilharziasis receive scant attention compared, for example, with heart disease and cancer. In time, basic as well as adaptive research needed by developing countries will be done in their own institutions by their own scientists ; building their capacities is a high priority task, but for the next twenty years or so, the most rapid gains in basic knowledge are likely to be made in advanced countries.

Despite the magnitude of the task of devising more effective technology in and for developing countries, encouraging examples demonstrate an advance from technical assistance, or the sharing of existing knowledge, to technical collaboration in search of new knowledge and new ways of applying knowledge.

The most widely heralded example of the development of appropriate technology is in the field of agriculture, where dwarf strains of wheat and rice were genetically produced to form the basis for high-yielding farming systems in the tropics. These "Green Revolution" varieties were bred by Western-trained scientists working in tropical climates in institutions able to combine international scientific standards with a strong problem-solving orientation in an atmosphere free from local political or social forces.

### Institutions

The need for special attention to delivery systems has been highlighted by the experience of the last three decades in the developing world. Timely and valuable as this concern for distribution is, however, there are dangers in overemphasizing delivery systems at the cost of neglecting the institutional framework for problem-solving. In the long run, the basic needs of the poor majority can only be satisfied by the development of their own capacities to understand and deal with their problems. The ultimate objective must be to create the indigenous capacity to analyze problems, create or adapt technology, and to organize and manage productive activities.

Thus, while it is vitally important to focus on delivery systems which reach the people living in poverty, it is also important to continue building the research and development capacity of local institutions. In this task, research and training institutions in the United States have a major role to play through collaborative relationships. U.S. analytical capacities and problem-solving attitudes are as valuable as technical knowledge in building local, relevant research and development capacities.

### Policies

Even if policy objectives are sharply defined, it is seldom possible to calculate precisely the differential impact on groups in a developing country or the effect of policies on the growth rate of the economy. The data base and measuring systems are typically inadequate, and the numbers of available trained analysts small. The consequent absence of confident solutions places a premium on research, experimentation and sharing of experience.

To summarize the encouraging advances of recent years in finding more effective means for dealing with development problems, one can say that a new appreciation of the complexity of the development process is wide-spread,

and that this has led to innovative adaptations in the use of technology, institutions, and policies to deal with them. The thrust of these adaptations is to engage broader numbers of the people in the development process, to focus on the special needs of the poor, and to create more equitable societies. This process of adaptation has only just begun, and it will not end soon, if ever. The value of U.S. participation in the process will be greatest in the next ten to fifteen years, while the indigenous capacity for analyzing and dealing with local problems is being built. The U.S. contribution should involve not merely sharing existing knowledge, but the use of high quality skills and institutions in finding solutions to the particular problems of developing countries, and building institutional capacity in those countries.

It should be emphasized that the collaborative search for knowledge of value to developing countries will also yield important benefits to the United States as well. Many of the problems of developing nations are U.S. problems as well, and frequently the success of those countries in dealing with their problems will have a direct bearing on U.S. interests; examples include food production, pollution, population, energy, disease, drugs, and employment. So powerful is the mutuality of interest in worldwide advances of knowledge in these areas that one may question whether some part of the costs of U.S. technical collaboration with developing countries should properly be called foreign aid. Clearly, the term technical assistance no longer adequately describes the relationship.

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### The Institutional Framework for Technological Collaboration

The challenge to U.S. institutions now is to find more and better ways to bring scientific, technical and educational resources to bear on building institutional capacity in developing countries and sharing with them the task of solving critical development problems. This is obviously more difficult than simply sharing what we know; it calls for a change in style from the didactic to the experimental.

Scientific and technical relationships with developing countries have always posed a problem for our government. Concentrations of specialized talent are in Federal departments and agencies with heavily domestic responsibilities. AID, on the other hand, is an operating agency with the primary responsibility for managing the transfer of resources to developing countries.

When the technological problem was perceived to be one of transferring skills and know-how, AID could handle it much like other transfers, at least conceptually. As the more complex nature of the relationship between technology and development was revealed through experience, the Agency made organizational and policy accommodations.

It may be useful to review briefly some of these organizational accommodations and innovations of recent years, and some of the means through which other Federal agencies work with developing countries, before offering judgments on the adequacy of the present institutional framework.

AID and Technical Assistance. Several organizational innovations and policy reforms have had particular pertinence to AID's technical performance: The enactment of Section 211(d) in 1966, the creation of the Technical Assistance Bureau in 1969, the policy reform of 1972, the New Directions of 1973, and passage of Title XII in 1975.

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The Agency continues to be ambivalent, however, about funds spent to deepen understanding of development problems, as opposed to short-term operational research directly related to projects. Generally the latter receive more emphasis. The disadvantage is that research needed for the solutions of long-term problems tends to be neglected.

TAB has sought to retain a longer-range focus, but field-mission directors and the staff of regional bureaus have understandably tended to perceive more pressing needs for the time of technically competent staff and for available funds. This contrast in viewpoint between TAB and the regional bureaus affects the linkages between research and the Agency's programs in the field. A secondary effect is that less has been learned from field experience than might have been the case if the central problem-focused staff were better connected with field operations. This situation has tended to improve, but is hampered by lack of sufficient technical staff in the field missions.

- In 1972, the AID Administrator, with Congressional encouragement, instituted a series of operational reforms with five main objectives:

1. To reduce the official U. S. presence overseas;
2. To place greater reliance on the developing countries for planning and managing activities that AID helps to finance;
3. To encourage a more collaborative style of working with institutions of developing countries;
4. To place greater reliance on U.S. private organizations for the implementation of development activities, with substantially reduced U.S. Government supervision, and
5. To develop techniques that simplify the administration of aid and reduce personnel and administrative costs.

Some progress has been made in meeting these objectives, but the results are mixed. AID missions abroad have been reduced; indeed, they may now be too small to supervise in detail in some of the complex and experimental projects involved in New Directions programs.

Somewhat greater reliance on institutions in developing countries for planning and managing AID-assisted activities has been achieved, but this process cannot go far without conflicting with AID monitoring and reporting requirements. The degree to which a more collaborative style of interaction with host institutions has evolved is a subjective judgment, but again the internal requirements of the Agency and the Congress would seem to work against true collaboration. It is difficult to achieve a collaborative relationship when the recipient is asked to certify compliance to a 100 item check-list concerning matters unrelated to the project under negotiation, and when a Congressional Appropriations Committee several bureaucratic layers removed from negotiators in the field must pass on all projects before initiation, and must approve any increase in cost that may be found necessary due to developments that occurred between the submission of the project to the Congress and its implementation as much as 18 months later.

Private contractors are now often employed in designing projects and are generally turned to for implementation. Contracting procedures are, however, a subject of many complaints, particularly from universities. Competitive bidding procedures designed for the procurement of goods and routine services often result in awards going to the swift and eager rather than the best qualified. While price competition takes place in a minority of cases, the agency strives constantly to increase competition rather than rationalize a system to meet its needs. For example, a university may help to design a project and then, in the interest of competition, be barred from bidding on the execution. Those invited to bid, on the other hand, often receive too little information on which accurately to judge their

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interest, and have too little time to make staff arrangements. The contracts often call for a specious precision regarding costs and procedures, which is inappropriate in experimental, high risk tasks. Although it was intended that Government supervision of the contractors would be substantially simplified, supervision has tended to increase due to internal and Congressional pressures for a higher order of management and control.

-- AID responded with enthusiasm, after some uncertainties and delays, to the New Directions legislated in 1973. It is too early to judge the success of this focus, but some of its costs are now apparent. There has been a decline in the attention given to building up central institutional capacities in the developing countries, particularly research and planning institutions. Under a narrow interpretation of the New Directions, it is difficult to make the case that the small farmer will directly benefit from research, particularly when research programs give priority to export crops which are frequently grown by larger farmers.

The New Directions mandate has also had the effect of narrowing the focus of AID's expenditure for training, although the Agency does support specialized training related to projects.

-- Congress added Title XII to the Foreign Assistance Act in 1975. This provision calls upon the Government to strengthen the capacities of land-grant and other eligible universities in program-related agricultural institutional development and research; to improve their participation in U.S. and international efforts to apply more effective agricultural sciences to increasing food production; and to provide long-term support to the application of science to solving food and nutrition problems of the

developing countries. Title XII also calls for the participation of the universities in the planning, development, implementation, and administration of food production and nutrition programs. To this end, a Board for International Food and Agricultural Development (BIFAD) with a majority of University representatives advises the Agency.

Title XII provides a long-term authorization for greater university involvement in all phases of technical work on agricultural development. Its potential contribution has yet to be realized, however. This is largely due to the cumbersome and time-consuming procedures set up by the Agency to implement the Title, which have extended the normally long AID lead time, and to the narrow interpretation of the New Directions policies that the Agency has adopted in an understandable concern not to ignore or misread Congressional injunctions.

Other Federal Agencies. An informal survey of the international scientific and technological activities of 15 Federal agencies by the Organizing Group of the Council on Science and Technology for Development found a substantial array of international activities underway, but no evident set of objectives for the scientific and technical component of U.S. development activities. In many cases, agencies are carrying out research overseas in pursuit of their domestic objectives, but without deliberate consideration of foreign policy or development goals.

In addition to research activities abroad related to domestic problems, agencies have opportunities to work abroad by participating in international organizations, providing reimbursable technical services to AID and foreign governments, and utilizing counterpart funds resulting from the PL 480 program.

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Research abroad. In cases where domestic objectives can be better pursued abroad, overseas research is justified in agency budgets. For example, USDA supports a laboratory in Buenos Aires to study insects affecting water hyacinths, alligator weeds, and other weed species--all this in search of better means of weed control in the U.S. A narcotics substitution project in Pakistan and Thailand is also seen to be relevant to domestic goals. The Center for Disease Control in Atlanta has a valuable collaborative relationship with the Cholera Research Center in Dacca.

International Organizations. All fifteen concerned domestic agencies have formal or informal links with international organizations in their areas of interest. For example, the Department of Agriculture coordinates U.S. participation in FAO, plays a role in the World Food Council, the agricultural aspects of the UN Development Program, the International Fund for Agricultural Development, and participates informally in the agricultural research consortium known as CGIAR. The National Oceanic and Atmospheric Administration works with developing countries in the World Weather Watch program, under the auspices of the World Meteorological Organization. The National Geological Survey participates in several international research programs sponsored by international organizations. The involvement of these agencies with international organizations in some cases produces tangible scientific benefits, and in others strengthens useful collegial ties with scientists from other countries.

AID-financed technical services. AID is able to draw on the scientific and technical resources of other agencies through Participating Agencies Service Agreements (PASA). Currently, 81 specialists from other agencies serve in AID projects abroad, of whom 51 are from the Department of Agriculture.

In addition, under similar agreements, 169 Washington-based staff of other agencies are available to AID for technical assistance on a full- or part-time basis. The services provided include training in Federal facilities as well as technical advice.

Other reimbursable programs are financed by foreign countries under bilateral agreements; for example, USDA personnel are working with Saudi Arabia to establish a research center in Riyadh and with the Mexicans to eradicate screwworms.

NASA's LANDSAT Program is in a class by itself. Approximately 150 countries, mostly in the developing world, purchase LANDSAT data. AID, IBRD and FAO, among other donor agencies, use the images in their projects. This remote sensing device has proven useful in identifying resources for exploitation, diseased crops for replanting, and geological features which affect road, rail, and pipeline construction.

Counterpart funds. In a few developing countries, e.g. Burma, Egypt, Guinea, India, Pakistan and Tunisia, local currencies are available to Federal agencies to support activities. In FY 1976, alone, HEW obligated the equivalent of \$14.9 million for scientific research abroad using these funds. USDA supports 360 overseas research projects.

The potential value of PL 480-financed research programs is large, but not fully realized because of a lack of policy and coordination of the multitude of projects. Systematic programming of the funds on a national basis could increase the effectiveness with which they are used.

Institutional shortcomings. In our discussions with knowledgeable people in AID, other Federal agencies and the scientific and educational communities, six major shortcomings of the present U.S. institutional capacity to address development problems effectively were mentioned most frequently:

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- The technical qualifications of AID staff;
- the operational procedures of AID;
- the lack of mechanisms for scientific and technical collaboration with middle-income countries;
- the under-utilization on development problems of the scientific and technical resources of other Federal agencies;
- the under-utilization or development problems of private scientific, technical, and educational resources;
- the inadequate ability to mount concerted attack on major development problems along the entire spectrum from the creation of necessary basic knowledge, through various stages of adaptation, to the practical application of new technology in the developing countries.

#### 1. Staff.

AID had declined in size by around 50 percent in the last ten years, but the number of technically-qualified people in the fields of agriculture, health and medicine, and education has dropped by more than three-quarters. (This does not take account of staff in management positions who have technical qualifications.) Because of the overall staff decline, little fresh recruitment in technical fields has occurred, except for a small flow to the central staff. As a result, the technical staff remaining tends to be older and less current professionally than was the case a decade ago.

This decline in technical quality is in part a matter of deliberate policy, in that the Agency decided to rely more on contractors than its own staff for implementing technical projects and for specialized talents of all kinds. The intention was to maintain a core group with broad technical backgrounds within the Agency, and to rely on them to draw on specialized skills outside the Agency, as necessary.

The quality of staff needed to make this concept effective is high, however, and can only be found through aggressive recruitment--not gradual attrition. AID is not at this time an attractive organization for many technically-qualified people because of the time which must be devoted to non-professional work and the difficulty of keeping professionally current. Combined AID/university careers are difficult to arrange. Under the Intergovernmental Personnel Act, a specialist can join AID on loan from a university, but in practice few do so because of practical costs involved for the individual or his university.

Nor is area knowledge, increasingly necessary for strengthening indigenous institutional capacity, a strong attribute of AID's technical staff. The rotational assignment system offers little incentive for deep engagement with the cultures of recipient countries.

## 2. Procedures.

Administrator Gilligan achieved large progress when he eliminated one major step in the project approval process. The Agency is still far from having an atmosphere conducive to scientific and technical collaboration, however. This is due partly to the use of inappropriate instruments, such as commodity-type contracts mentioned earlier, partly to onerous Congressional demands for detail, and partly to the fact that the primary function of the Agency is to effect resource transfers and manage projects. It should be possible to simplify contracting procedures and improve relationships with private sector research and training institutions, but the requirements of Congress are another matter. It may be necessary and appropriate for the staff of Congressional committees to review each project when they involve major concessional resource transfers, but this kind of close supervision of research and technical collaboration can be seriously detrimental to quality.

It should be noted that many of the successful innovations in scientific and technical cooperation cited in this report have come from the private sector--foundations, universities and voluntary organizations--rather than from government-financed programs. Accountability in the problem-solving fields of development is more meaningful when considering the results of activities than when scrutinizing detailed plans.

The underlying problem of the Agency in dealing with scientific and technical matters may have to do with its character as an operating agency, charged with administering concessional aid and expected to produce quick results. There is a difference of time perspective between operations and research, a difference of temperament and of priorities. A relatively short time horizon is perhaps necessary and appropriate to an Agency which must justify its funds on an annual basis, which has to manage projects, and which must be responsive to short-run foreign policy considerations. Projects must be mounted on the basis of what is known. But the major problems of development will not yield to short-term efforts; their solution requires new knowledge, and hence sustained attention by research institutions well into the future.

### 3. Technical Cooperation With Middle-Income Countries.

A serious gap in the pattern of American international scientific technical and educational relationship is emerging as a result of increasing concentration by AID on activities in the low income countries, and the absence of other mechanisms to facilitate relationships with middle-income countries.

Many of the "graduate" countries, such as Korea, Taiwan, Turkey, Iran, Brazil, Mexico and Colombia, are of great economic and political importance

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to the United States, and their scientific and technical leadership generally has been trained in the United States, but U.S. funds are often not available to maintain the U.S. share of the costs of collaborative relationships.

For those from countries willing and able to pay the full cost of assistance, in dollars and usually in advance, AID has an Office for Reimbursable Technical Assistance (ORTA). The Office now serves nineteen countries, most of which are oil producers. The assistance requested is generally associated with the purchase of U.S. capital goods.

Cooperative scientific and technical relationships between American institutions and those in developing countries can be financed by AID, if the country is a recipient of concessional aid, or by the developing country, if it is wealthy enough and wishes to do so. In practice, even the oil producing countries are more likely to buy technical services than to finance both sides of a collaborative relationship.

Many non-recipient countries with income levels in the middle range would welcome collaborative relationships with U.S. research institutions, but can ill afford to bear the full cost. At present, no suitable U.S. mechanism for supporting collaborative shared-cost arrangements exists.

Success in reaching middle-income status is not necessarily accompanied by the maturation of institutional capacities for solving serious technical problems which remain. In Brazil and Mexico, for example, large sections of each country remain in poverty. Although international financial institutions and private capital markets can provide funds for these countries, severe technical and planning problems are involved, to which U.S. research institutions could make useful contributions if requested by local institutions and if

funding were available. It would be in the U.S. interest to be able to respond positively to opportunities to collaborate in research and training relevant to anti-poverty programs in these countries.

Mutual interest in collaborative programs can be found in other fields as well, such as research on alternative energy sources, family planning programs, environmental protection, drug control, food production, and employment. Knowledge gained on these subjects in the middle-income countries will be useful not only to them but in many cases to the United States and to other developing countries.

For advanced training, the middle-income countries need to send students to advanced countries. The complexity and diversity of U.S. higher education and research institutions can be baffling to those who wish to tap them. ORTA is currently assisting the Nigerian government to place 500 students in American colleges and universities, and may in time develop additional programs of this type. ORTA staff is not professionally equipped to handle placements itself, however, and the Nigerian project has taxed the Agency's capacity. A permanent organization, more closely tied into the U.S. higher education community, is needed to facilitate international cooperation at this level. The American Council on Education is in the process of studying the merits of establishing a central information and referral system.

For the middle-income countries, it may also be desirable for the U.S. to share training costs in order to make American training more competitive with that available in other advanced countries.

#### 4. Utilization of the Scientific and Technical Resources of Federal Agencies for Development Purposes.

Approximately two dozen Federal agencies have an influence on food supply and nutrition in the United States and the world. Half of these

conduct or finance research on food and nutrition problems, the Department of Agriculture research budget accounting for only around half of the total. 3

Of these agencies only AID has a primary concern for food production and nutrition in developing countries. AID can and does draw on other agencies through Participating Agency Service Agreements (PASA) for assistance on specific projects. In the absence of a mandated concern for food production in developing countries, however, these other agencies can be only passive respondents to requests, despite the fact that the preponderance of scientific expertise on food production and nutrition is in USDA and other agencies, rather than in AID. Consequently, USDA need not concern itself with the merit of priority of requests for assistance received through Participating Agency Service Agreements. Nor are PASA projects likely to attract the best staff from cooperating agencies; they must be considered fringe activities where promotion and advancement are concerned.

It would not be desirable for each technical agency to receive a mandate for work on development problems. Some middle ground between passive response and unlimited license should be found. The realization that the problems of developing countries require a high order of scientific and technical innovation, and will not be solved by merely transferring knowledge, has not yet been translated into the institutional terms.

Development problems, as we have suggested, are not solely technical, however, and U.S. technological efforts need to be guided by intimate knowledge of development realities if they are to focus on the main problems. This would argue for greater AID leadership in calling forth other Federal skills; as noted above, however, AID staff tends to lack some of the technical qualifications and the area knowledge to perform this leadership role effectively.

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Growing international interdependence will inexorably lead the mission-oriented Federal agencies into greater international involvements on a range of matters which spill over national boundaries. This has to some extent already occurred; but the pursuit of these international relationships in the limited context of these agencies' domestic interests fails to exploit their full potential benefits. From the development perspective, U.S. international scientific and technological activities are thus unfocused and undirected.

#### 5. Use of Private Scientific, Technical, and Educational Resources.

The New Directions mandate has had the effect of reducing the extent to which AID turns to the higher education and research community for assistance in training and problem-solving. Basic institution-building in many of the aid "graduate" countries has been accomplished, and it is now appropriate to build more durable collaborative, problem-oriented relationships as discussed earlier. Many of the current aid recipients did not benefit from AID's institution-building era, particularly those in Africa; so the possibility of resuming this type of assistance should not be foreclosed.

The main task now, however, is to build adequate specialized capacity for research, training, and international collaboration on critical development problems. AID experience with the 211 a program since 1966 has not been successful, but several impressive models for future program development have emerged.

One is the INTSON program based at the University of Illinois and the University of Puerto Rico. The University of Illinois began in 1965 to work with universities in India to expand their research, training, and extension programs. Growing interest in the soybean plant as a source of high-protein

food led the University, with AID and Rockefeller Foundation support, to examine opportunities for soybean production in other tropical areas where it was not commonly grown. In 1973, AID awarded 211 grants of \$500,000 each to the Universities of Illinois and Puerto Rico to enable them to increase their efforts in this field.

INTSOY, or the International Soybean Program, now has links with 105 countries through a varietal testing program. It has formed relationships with international and national research institutions, and it issues a newsletter and sponsors publications to facilitate information flows on soybeans. AID, UNDP and FAO have supported programs of varying size in nine countries. The capacity of INTSOY to sustain an interest in many aspects of soybean utilization and consumption, has an unusually valuable resource.

This type of program capacity may not be broadly replicable; one of its features, which is vital to success in any field, is the sustained support that it has received. The assured continued international interest in soybeans is a vital element in inducing well-trained people to make a career in this area.

#### 6. Ability to Mount Concerted Attacks on Major Development Problems.

The National Academy of Sciences has recently completed a landmark study of research priorities in the field of food and nutrition, <sup>4/</sup> which took two years to complete and engaged the efforts of 1500 people.

To establish research priorities, 12 interdisciplinary study teams were assembled and asked to identify research and development areas with outstanding potential to help meet world food and nutrition needs. The priority areas identified, totaling over 100, were then evaluated by another study team from a number of points of view including near-and long-term effects. As a result,

22 priority areas were selected in four categories: nutrition, food production, food marketing, and policies and organizations.

The study stresses that a large part of the research needed will have to be carried out in the developing countries, where the most serious shortages of resources for food and nutrition exist. Serious research efforts are also found to be needed at the international level, in the research network of the Consultative Group (CGIAR), and in the high-income countries where most of the relevant scientific resources are found.

The study suggests that the United States should, when asked by developing countries:

- Train researchers for the developing countries at U.S. universities and help build training institutions abroad;
- help the developing countries establish research facilities and institutions and apply research results;
- encourage and support communication and collaboration among research workers in the developing countries, in international and regional institutions and in the United States, on problems of common interest

At the international level, the study recommends that the United States:

- Continue to provide 25 percent of the funding for the centers and programs sponsored by the Consultative Group on International Agricultural Research;
- join in supporting other high quality international centers, both those with which it is already involved and others for which it is not now a major supporter;
- move vigorously and imaginatively to encourage collaborative relationships between international centers and research groups in the U.S.

In the United States, the study indicates that:

- Major increases are needed in fundamental research in the natural and social sciences, particularly in those areas related to the enhancement of food production and nutrition;
- a new and broader approach is needed for research on nutrition;
- much greater attention needs to be given by the U.S. research community to international objectives;
- support for social science research relevant to food and nutrition should be increased sharply.

The report goes on to make specific recommendations to the Department of Agriculture, AID, the National Institute of Health, and the National Science Foundation, concluding with the suggestion that arrangements for designing and implementing a coherent strategy for research on food and nutrition be established in the Executive Office of the President.

The report emphasizes that research and development capacities at all levels are inadequate to meet the foreseeable challenge to world food supplies in coming years. The final recommendation, that a coordinating role is needed at the White House level, recognizes that the problem transcends the capabilities and responsibilities of any existing agency.

Despite the shortcomings of current efforts in the food and nutrition field, U.S. institutions are at present in a better position to make meaningful research contributions in this field than in the other problem areas, for several reasons:

- Congress has authorized, under Title VII, sustained support for building capacity in American universities to work on international food and nutrition problems, but not on other development problems.

- The Land Grant and Sea Grant universities have had a problem-solving orientation since they were founded, and many have experience in developing countries.
- USDA has Congressional authorization to conduct research in tropical and subtropical agriculture for the improvement and development of food production and distribution techniques in developing countries.
- An international research network already exists which can identify critical basic research needs for action by U.S. facilities.
- The NAS study provides a comprehensive set of research, organization and policy priorities.

In a sense, the stage has been set for action on food and nutrition, but the script is only in first draft in respect to research and training in population, health, education and human development.

#### International Development Foundation

The contribution of the United States to worldwide development would be enhanced by the establishment of an International Development Foundation (IDF), which would be a catalyst and coordinator of U.S. scientific, technical, and education activities related to development problems. This Foundation would be governed by a board of trustees with both public and private members, the latter in the majority.

The IDF might be established on a permanent basis by the Congress, with multi-year authorization for sustained work on the major development problems. Annual appropriations would be sought; the IDF should not be under pressure to obligate all of its funds on an annual basis.

The IDF would be autonomous, in the sense the National Science Foundation is autonomous; its Executive Director would be appointed by the President and confirmed by the Senate.

The purposes of the IDF would be:

- To expand knowledge of the nature of the development process;
- to facilitate the application of U.S. and international research competence to the search for solutions to critical scientific and technical problems of developing countries;
- to improve access to U.S. research and technical resources for developing countries;
- to facilitate the growth of institutional and individual capacity in developing countries for research and experimentation on development problems;
- to encourage technical cooperation by U.S. institutions with institutions in developing countries on topics of mutual interest such as food production, environmental quality and population; and
- to assist U.S. private and voluntary organizations and foundations to contribute effectively to international development.

In order to accomplish these objectives, the foundation would perform the following functions:

1. It should serve as a central source of knowledge concerning research needs and priorities on selected development problems.

The Foundation would need a relatively small but highly qualified staff capable of grasping the scientific dimensions of key problems and interacting as peers with scientists in U.S. and international research institutions working on these problems. It should keep current with the advancing frontier

of knowledge concerning these problems and be able to advise the administration and cooperating research institutions on research priorities.

The Foundation should periodically organize thorough reviews of research priorities in selected problem areas. The World Food and Nutrition study is a model for such reviews. The WFNS should be updated every four or five years and similar studies should be sponsored in health, population, education and human development.

2. The IDP should serve as coordinator and catalyst of research and development problems by government research facilities.

Increasing international interdependence suggests that increasing priority should be given by the research arms of many U.S. departments and agencies to problems of international significance. Broadening these research interests will take time, however. Congressional committees governing departmental budgets tend to be strongly oriented to domestic interests. Departmental staffs, including researchers, also have a strong domestic orientation which will take time to broaden.

The Foundation could assist these agencies in targetting on development problems. These agencies could also serve as catalyst and guide, if they accepted broader research responsibilities. Initially, it would be enabled to contribute supplemental funding for its research on priority development problems and to support and assist agencies using research funds generated abroad under PL 480. The Congress and the departments should accept the addition of research on development problems of mutual interest as an integral part of departmental missions. Research on problems only of interest to the developing countries would, however continue to be funded by the IDP.

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3. The Foundation would enhance the contribution of U.S. universities and private research and training facilities to the solution of key development problems.

It should have authorization in all development fields to focus attention on research priorities identified in the proposed periodic reviews by:

- Sponsoring research competitions;
- contracting for research; and
- building up the capacity of selected institutions to work on particular problems.

4. It would encourage and support U.S. participation in international research and development programs on development problems.

As the official U.S. donor to the Consultative Group on International Agricultural Research, the Foundation would be in a position to support linkages from the international centers back to the basic research resources in the United States, and forward to the national research systems in developing countries.

In other fields, the international cooperation may offer similar advantages and opportunities, and should be explored by the Foundation.

5. It would improve access to U.S. training and research facilities by the developing countries.

The Foundation would strengthen foreign student orientation, language training, and other programs which prepare foreign students for studies in the U.S. It would ensure the existence of adequate mechanisms for the identification of appropriate U.S. training facilities by institutions and individuals from developing countries, and for placing students.

7. It would help public and private foundations and voluntary organizations interested in development to become more effective.

With regional field offices staffed by technically qualified people knowledgeable of the local conditions, the Foundation would be in a position to assist private foundations and voluntary organizations to target their efforts more effectively. Field office support might also be made available to publicly supported development and people-to-people programs such as the Appropriate Technology International, the Inter-American Foundation, and the Peace Corps.

Regional Offices. The IDF should have regional field offices, headed by senior representatives at ten or twelve locations in the developing world. They would maintain contact with research and development institutions in the region and with collaborative projects between those institutions and others in the United States. The typical field office might have three to five core staff members, who would have a long-term commitment to and knowledge of an area, assisted by one or two technical consultants in each problem area in which the office was working. The consultants would normally be on leave for two to three years from a university or research center with interests in the area. Local and third country consultants could also be employed where possible.

Projects or programs requiring more staff would normally be undertaken by other institutions funded by the Foundation through grants or contracts. Their logistic support would come from the field offices.

Like the Peace Corps, the field offices would normally not be part of the U.S. Embassy. They might be attached to a university or research institution. Country project leaders or IDF staff, where posted, would, of course, be responsible to the Ambassador and would coordinate their

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The placement of foreign students is a highly professional job: the Foundation should be prepared to assist in the placement of DCA-funded students as well as students funded by the Foundation or the developing countries.

Experimental courses designed for the special needs of students from developing countries in such fields as low-cost health delivery systems, economic planning and project appraisal, and cross-cultural child-rearing studies, would be supported. Training for Americans preparing to work abroad, such as the personnel of private and voluntary agencies, could also be provided or supported by the Foundation.

Support would also be available for the U.S. share of joint research projects undertaken collaboratively by U.S. institutions and institutions in the middle-income countries.

6. It would help to build indigenous capacity for training, research, and experimentation through:

- Funding training in the U.S. and third countries for prospective local institution staff members;
  - funding research projects and competitions;
  - organizing research methodology workshops and sponsoring regional conferences on key problems;
  - promoting links between U.S. and international research efforts and local institutions;
  - strengthening indigenous training institutions and in-service training programs;
  - making grants when necessary for equipment and furnishings; and
  - supporting experimental and pilot projects.
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activities with country DCA missions in those countries receiving concessional assistance. As indicated in the body of the report, technical assistance associated with capital goods transfers and DCA-financed projects for delivering goods and services would remain in DCA. The Foundation's focus would be on the adaptation or creation of knowledge, or experimentation on the uses of knowledge in developing countries.

### Issues.

Periodically, since at least 1964, recommendations have been made by committees and commissions concerned with scientific and technical relationships with developing countries for the creation of a public foundation or institute to facilitate the task. This persistence of the idea is impressive; so is the recurring resistance to it. The discussion below seeks to examine not only how the IDF could mitigate the shortcomings of the present system, but also its potential defects.

#### 1. Orientation.

A major concern of those skeptical of the public foundation approach is that it could become a vehicle for funding U.S. research of only peripheral value to the developing countries. This is a potentially serious problem. The proposed systematic periodic review of research priorities on key problems and the creation of field offices that can identify research and technical cooperation needs and opportunities should help to meet it.

#### 2. Technical Qualifications of Staff.

One of the principal reasons for establishing a public foundation is to create a professional environment that will attract technically qualified staff. This would only be possible, however, if the Foundation management had flexibility in staffing; the automatic transfer of staff from AID would

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mitigate the supposed gain. Measures to facilitate personnel movement between the Foundation and universities and research institutions would be important. Legislative provision for this latitude would be required.

### 3. Contracting Procedures.

Simpler contracting procedures for research and personnel services would be essential. Attempts to simplify AID procedures have apparently met with little success in recent years. The proposed Foundation would only be able to institute procedures compatible with the type of work to be performed if the need to do so was explicitly recognized in legislation from the start.

### 4. Accountability.

Development, research, and experimentation deal with unknowns; it is consequently difficult to be precise about the components and methodology that will eventually yield the best results. It is often even difficult to set concrete norms for results. The principal test of the effectiveness of the use of funds should be the periodic professional review of the Foundation's program. Such a peer-review process, which should involve knowledgeable people from developing countries, seems to us most likely to permit the creation of an atmosphere of professional dedication to solving critical long-range problems, and to yield the maximum return to the tax-payers' dollars.

### 5. Foreign Policy.

While it is appropriate and necessary for concessional resource transfers to be responsive to long-term U.S. foreign policy concerns, it is less clear that this is the case with respect to U.S. scientific and technical work on solving development problems. The creation of a public foundation would help to insulate this work from foreign policy pressures.

Problems will arise, however, if the Foundation has a cooperative relationship with an institution in a developing country that begins to deny the fundamental human rights of its citizens or, like India or Egypt in recent memory, passes through a period of strained official relations with the United States. Each case would present different circumstances and require different responses; on balance it would have been advantageous to the United States and to India and Egypt to continue scientific and technical cooperation on development problems through the period of estrangement. Options should be open, on the U.S. side, for continued cooperative work on long-range problems even during periods of considerable official alienation.

#### 6. Size and Constituency.

A serious potential defect in the public foundation concept is that it exposes research expenditures to concentrated attack, particularly by critics of foreign aid. When research costs are part of a much larger budget, they are less vulnerable to such attacks.

Research and experimentation is by nature high risk; it will inevitably be possible to isolate unsuccessful, unproductive and, seen out of context, apparently silly efforts for criticism and ridicule. If this vulnerability were to result in diminished funding for research, the anticipated gains in quality would be dearly bought. This exposure might be mitigated if, as recommended in the body of the report, the Foundation were also charged with support for U.S. private and voluntary agencies that wish to help developing countries (such as CAPE); these have large constituencies which will be of great help in generating support for the IDF.

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#### 7. Continuity of Funding.

Title XII of the Foreign Assistance Act provides multi-year authorization for work on food and nutrition problems, but requires annual appropriations of funds. Under this and other titles, contracts and grants of up to five years can be made by AID, although the Agency has recently preferred to limit awards to three years. The Foundation should be enabled to enter into five-year arrangements which can annually be extended for one year, in order to ensure the continuity of funding which is necessary to attract the best scientists, while at the same time providing the ability to curtail expenditures on ineffective or unsuccessful programs.

#### 8. Interagency Relationships.

Coordination between the IDF and the DCA should take place at all levels including the board of directors, and should provide a full exchange of information on activities. Each institution should maintain a capability to manage its own affairs, but each should be able to call on the other for assistance in providing specialized services. In the field, the IDF would have a regional orientation and the DCA would have a national orientation. DCA would not be represented in middle-income countries.

#### Conclusions

The limitations on the direct transfer of technology, institutions, and policies from the advanced to the developing countries are more clear than in the past. In some cases, adaptations and adjustments of limited scope may suffice, but the more difficult development problems will require new knowledge for solution.

Sustained and self-reliant development requires the creation within each country or region of a range of institutions capable of designing and adapting technologies and of devising the means of delivering information and services to the broad masses of people, both urban and rural.

One of America's most cherished assets is its ability to focus scientific and technical skills on the solution of practical problems. These skills have been under-utilized with respect to development problems. The challenge deserves the best that our institutions have to offer. Institutional changes to facilitate application of higher quality scientific, technical and educational abilities to the task of building the capacity of developing countries to achieve their development goals should be part of the response.

Footnotes - Annex II

- 1/ "Proposal for a Program in Appropriate Technology," transmitted by AID to the House Committee on International Relations, February 7, 1977, U.S. Government Printing Office.
- 2/ "Report of the Review Team on the International Grants Program", AID, September 25, 1973, Mimeo.
- 3/ World Food and Nutrition Study, National Academy of Sciences 1977.
- 4/ World Food and Nutrition Study: The Potential Contributions of Research, National Academy of Sciences, Washington, D.C. 1977.

### Annex III

#### Coordination within the United States Government

Although the subject of this report is foreign economic assistance, the problem is development. Development grants and loans are only one of many instruments available to the United States which have or can have an impact on development.

We have mentioned other bilateral transfers (P.L. 480, Supporting Assistance, Peace Corps, Export-Import Bank), transfers through international institutions, trade, support of private investment (OPIC, tax concessions), possible new sources of finance from the international commons or otherwise, and the actual or potential informational and research exchange programs of the regular Executive Departments. If it is accepted that these should be viewed as the parts of a whole, then a structure is needed within the U.S. Government to make it so. The structure should be one that shapes some actions -- notably those relating to aid transfers, ensures that development needs are taken into account in shaping others -- such as trade policy, and also ensures that there is some consistency among a wide range of these development-related activities.

There are various ways of trying to meet this need, each with some logic and defects. They are:

An AID-Centered Option. Under this option, the Director of AID would be made responsible for the range of functions described above. Since these would be time-consuming, he would presumably delegate a good part of his work in managing AID and justifying its requests to the Congress to his Deputy.

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The advantage of this course is that the coordination responsibility would be in the hands of someone expert in the business and with the authority that comes from having substantial resources under his control. The disadvantage is that one agency -- and a directly interested agency, at that -- would be coordinating the activities of other agencies: When conflicts arose concerning the relative roles of bilateral and multilateral aid, for example, the AID Director would be both judge and plaintiff.

A State Department-Centered Option. The advantage of this approach is that it would put responsibility for North-South policy in the agency responsible for foreign affairs. The coordinator would sit astride the State Department's policies on all issues affecting the developing countries, and would be supported by full authority of the Secretary of State.

As in the case of AID, this involves a disadvantage as well: The State Department is only one of several operating agencies active in the North-South field. It might have some difficulty in appearing to be an impartial arbiter to other agencies concerned, e.g., Treasury and Agriculture.

This course might also give development activities a political image and perhaps even bias, thus defeating one of the prime purposes of the reform, which is to focus on development and particularly on problems of poverty. Country directors will -- properly and understandably -- seek to use every instrument at their disposal, including development policy, to affect short-term political relations with the countries for which they have responsibility. If indulged, these pressures could result in disadvantageous trade-offs between immediate political and long-term development objectives.

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Then there is the question of how the coordinating function would be discharged in the State Department. The logical course would be to assign it to the Under Secretary for Economic Affairs, but he has other responsibilities. A new position -- Under Secretary for Development -- has been suggested, but what would be the occupant's relation to the Under Secretary for Economic Affairs?

A third option is to center this integrative function in the Treasury.

This would build on the present Treasury responsibility for U.S. participation in the multilateral development finance institutions. It would ensure that coordination was supported by a large and expert staff. The major weakness of this option is similar to that of the State-centered option, in that it would put the development function in a department primarily concerned with other matters -- e.g., the state of the domestic economy, U.S. capital markets, and the international monetary system. This option would lack the virtue of placing the North-South responsibility in the agency concerned primarily with foreign policy; it would have the advantage of insulating it from short-term foreign policy pressures.

The fourth option is to place the integrative function in the White House or the Executive Office of the President. The advantage of this option is that it would provide the integrator with the position and stature that he requires to influence the two strong agencies that are primarily concerned: State and the Treasury.

The disadvantage is that the White House or EOP solution is frequently suggested for integrative efforts in many fields, and that if all these suggestions were honored, the White House would be over-populated.

On the other hand, integration is the function of the Executive Office. The question is whether the issue is important enough, and the need for integration great enough, so that the function should be placed in the White House or the EOP. We believe that it is.

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Whichever of the above options is chosen, the coordinator would operate as follows:

a. He would make recommendations to OMB and the President on all budgetary requests of the aid agency and the proposed new International Development Foundation, for the multilateral development finance institutions, for PL 480, and of such other agencies not covered here but engaged in development assistance as the Peace Corps, OPIC, and the Inter-American Foundation.

b. The Development Coordination Committee (DCC) would be reconstituted at a higher level with the coordinator as its chairman. (An alternative suggestion which has been made is that the Vice President should chair this committee, and the coordinator would be its vice-chairman). The committee should formulate major policies for the development assistance program, including those affecting the multilateral finance institutions. It would be reduced in size to include only those agencies which have a major interest in development matters.

c. The coordinator would sit on interagency groups that deal with subjects that significantly affect North-South relations. He would be invited to NSC or PRC meetings, when appropriate to his responsibility. He

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would also have an opportunity to join inter-agency consideration of foreign-domestic issues which deeply affect development (e.g., shoe imports, and sugar pricing).

d. The coordinator might serve as a member of the boards of the aid agencies suggested elsewhere in this report. He would not, however, concern himself with individual projects under either bilateral or multilateral aid programs, nor with the daily operations of the various development assistance agencies. The defense of budgets before the Congressional committees would continue to be made by operating aid agencies, by the Secretary of State for security supporting assistance, and by the Treasury for funding for the multilateral development finance institutions.

e. The coordinator would devote special attention to coordinating food assistance policy with U.S. development policy. For more than 25 years this marriage has been resisted, with the result that our food policy does not provide maximum help to, and may sometimes actually impair, development.

This structure would leave unchanged the basic roles that the State and Treasury Departments play in development policy; nor would it change their statutory responsibilities. The State Department would still provide foreign policy counsel to the various bilateral development institutions; Treasury would still instruct U.S. representatives to the multilateral institutions and control access to the American capital market.

Unlike the present system of ad hoc case-by-case compromises, there would, under any of the arrangements described above, be a mechanism for using the mediating and occasional arbitrating powers of the Coordinator to work out decisions on major program issues with the agencies conc

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Coordination of development aid is needed. That need has been met at least twice since World War II: by Douglas Dillon as Under Secretary for Economic Affairs in the late 1950's and by Averell Harriman in the White House in the early 1950's. These precedents suggests that where the coordinator is located is less important than whether he is given a full delegation of power and the strong support of the President.